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Taxation
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Washington, D.C.
January 25, 1937.

NATIONAL-FOREST CONTRIBUTIONS TO LOCAL GOVERNMENT

by

The Forest Taxation Inquiry

Division of Forest Economics.

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CONTENTS

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LIST OF TABLES

LIST OF TABLES (Continued)

NATIONAL-FOREST CONTRIBUTIONS TO LOCAL GOVERNMENT

1. Nature of the Study

The existing practice of compensating the local governments for the tax-exempt status of national forests by money payments of 25 percent of gross receipts has long been regarded as more or less unsatisfactory. Various changes have been proposed, ranging from complete submission to State and local taxation to retention of the 25-percent payment with some modification in its distribution among the counties. A study was initiated September 1, 1927, for the purpose of appraising the tax situation of the counties in relation to the national forests. 1/ It showed that in most

1/ L. F. Kneipp. The National Forests as a Form of Federal Aid to the States. Sen. Doc. No. 12, Separate No. 12. The results of this study are summarized in this part of the Copeland Report, and a more complete report in manuscript is on file.

States the 25-percent contributions, plus Federal aid related to the national forests through road, law-enforcement expenditures, and the like, approximated or exceeded the potential taxes on these forests. It also revealed the erratic distribution among the counties, of both the 25-percent fund and other benefits. This study has furnished ammunition to use against proposals to raise the 25-percent payment to 50 percent, or to submit the national forests to local taxation. It did not lead to any recommendations for changes in the existing method. Further study to this end was thought advisable.

Subsequently the demand for more liberal treatment of the national-forest communities through increased compensation for loss of potential taxes has become more insistent. One reason is the effect of the depression on local public finance and the increased tendency to look to the Federal Government for aid. Another is the speeding-up of national-forest acquisition, and especially the including of merchantable timber in recent and proposed purchases. Initiation of other Federal programs involving withdrawal of rural lands from taxation without any provision for compensation has aggravated the situation.

It was in connection with the national-forest acquisition program that the Conference on Forest Conservation called by the Secretary of Agriculture, at a meeting in January, 1934, recommended study of the problem of "stabilizing county revenues in connection with the extension and administration of the national forest." 2/ More recently the Executive Committee of the Conservation Conferences has sponsored a bill

2/ Cf. Journal of Forestry, March, 1934, v. 32, no. 3, p. 290

(S. 4507, 74th Congress, 2d Session) which in section 10 directed the Secretary of Agriculture "to cause a study to be made of the adequacy and practical effects of the payments now made to States and Territories out of national-forest receipts pursuant to the Act of May 23, 1908 (35 Stat. 260; U.S. C., title 16, sec. 500), and to devise, if possible, a more equitable and appropriate method for accomplishing the purposes of said Act and report to Congress not later than January 3, 1937, the results of said study with recommendations." Although that bill failed of passage, the Forest Service has undertaken such a study under its general authorization to investigate forest taxation problems in section 3 of the Clarke-McNary Act (43 Stat. 653) and stands committed to making recommendations in time for consideration by the 75th Congress. This report presents the results of this study.

It should also be noted that a committee was appointed by the President at a meeting of the National Emergency Council on December 17, 1935, to study the broad question of taxation, or compensation in lieu of taxation, on all federally owned real property, and to report its findings to the next Congress. This committee is composed of the Attorney General, The Secretary of the Treasury, and the Acting Director of the Bureau of the Budget. It has sent questionnaires to all government departments and agencies, calling for an inventory of Federal lands and improvements and related information. Another committee, likewise appointed by the President, is investigating the fiscal relations between the Federal Government and the District of Columbia, involving the nontaxable status of Federal property.

Object and basic assumptions

This study is not directed to a defense of the national-forest system. It is not particularly concerned with the fundamental justification for Federal support of local government in national-forest communities or in districts containing large areas of other Federal land or for the taxation or compensation in lieu of taxation of public property generally, subjects which are covered to some extent in available literature. 3/ It does not attempt to find a panacea for the ills of

3/ Barnett, James D. The taxation of public property. The Commonwealth Review, Univ. of Oregon, v.n.s. 12, pp. 257-278, November 1930.

Powell, Alden L. National Taxation of State Instrumentalities, 166 pp., Univ. of Ill. Press, Urbana, 1936.

Report of Committee of the National Tax Association on Revenue from Public Lands. H.L. Lutz, Chairman. Proc. Nat'l. Tax Ass'n., 1927, pp. 215-242. Columbia, S.C., 1928.

local taxation under the property tax. It does not cover the question of possible improvement in distribution of the benefits of the Federal road-building effort related to the national forests. Its principal object is

to develop a method of determining and distributing a monetary contribution to local government that will be a workable compromise between the interests of local taxpayers in the national-forest counties and those of Federal taxpayers generally.

The following assumptions are regarded as basic: (1) That the national forests will continue to be administered under Federal jurisdiction and with the same general objectives as at present. (2) That the Federal Government will continue the long-standing practice of giving monetary aid to local government in national-forest counties. (3) That such aid will continue to be regarded as a contribution rather than as a tax; that is, it will remain strictly under Federal control. (4) That the extent of such aid will be fixed with consideration both for the potential tax loss through exemption of Federal property and for such services as the Federal Government, in connection with its operation of the national forests, may render in aid of local governmental functions which would otherwise be provided for by the States and their subdivisions.

Method

The time limitation on this study would have prevented a detailed investigation of conditions in all the counties where national forests are important had such investigation otherwise been deemed desirable. The general survey conducted by Kneipp covered the period 1923-27 inclusive. Thus, it represents what economists hope were normal conditions. Nothing of importance would have been gained by repeating this general survey. Instead, detailed investigations of about thirty counties have been made by the taxation staff with the assistance of the regional and supervisors' offices and of the experiment stations. These counties were selected to represent so far as possible the various national forest-local government relationships of a fiscal and economic order. The tendency has been to choose extreme rather than average situations. This work has supplied up-to-date factual guide-posts and has brought the taxation staff in close contact with the problem as seen by local forest officers, county officials, and others. Certain factual material has also been compiled from the previously mentioned questionnaires submitted by the Forest Service to the President's Committee. In addition, office investigations of related topics have been made, such as the stabilization of contributions based on receipts and legislative provisions for contributions to local government on account of property owned by the Federal Government and by the States and their subdivisions. The results of the county studies and other investigations are presented in full in office reports in the files of the Taxation Inquiry. Time has permitted but little editing and rewriting of this material.

The conclusions of this study depend both on the facts determined in the field and in office investigations and on reasoning and judgment. They will be developed as briefly as the complexity of the problem permits.

2. Taxation of public property

In general, taxation is an attribute of sovereignty, and property belonging to the sovereign government cannot be taxed by a subordinate grade of government except by consent. In the United States a series of Supreme Court decisions has established the principle that Federal instrumentalities cannot be taxed by the States, nor State instrumentalities by the Federal Government. 4/ Likewise, local governments, being creatures

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4/ Boudin, Louis B. The taxation of govermental instrumentalities. Georgetown Law Journal, v. 22, no. 1, November 1933, pp. 1-40. Georgetown Law Journal Association, Washington, D. C.

Groves, Harold M. Exemptions in taxation. Bulletin of the National Tax Association, v. 22, no. 1, October 1936. Columbia, S.C.

Youngquist, G.A. Constitutional limitations, etc. Bulletin of the National Tax Association, v. 18, no. 2, November 1932, pp. 55-64. Columbia, S.C.

Barnett, James D. and Powell, Alden L. Cf. note 3, p. 3.

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of the States, cannot tax State instrumentalities except by the consent of the States.

To a greater or less degree in all civilized countries, owners of private property are required by reason of such ownership to contribute to the cost of government. In this country, taxes on real property have always furnished the sinews of local government. A recent survey of expert tax opinion records a practically unanimous verdict that the property tax should be retained as a major source of local revenue. 5/

5/ Walker, Mabel L. (Compiler). Opinion of American professors of public finance on important tax questions, as of January 1, 1935. Tax Systems of the World--Sixth Edition. Commerce Clearing House, Chicago, 1935.

Since local government, generally speaking, leans heavily on real property for its financial support, any extension of public ownership of such property with concomitant tax exemption tends to increase the tax burden on the private owner with property in the same taxing districts. Where there is widespread public ownership in rural districts with their usually higher per capita cost of government and relatively low tax base, the plight of the private land owner and of the district may become serious. This is true no matter how beneficent the purpose of public ownership or how farsighted the management of the public property. Recognizing this situation, both the Federal Government and many States have voluntarily compensated local governments for the nontaxable status of public property,

or have submitted under certain circumstances to local taxation. Many foreign governments have made similar arrangements. Such arrangements in the United States and certain foreign countries will be summarized at this point.

Federal Property

Many different classes of property are owned by the United States, all of which are, of course, exempt from State and local taxation. In general no compensation is granted for the tax-exempt status of this property, but there are a number of exceptions where revenue-producing properties are concerned. The usual method in these exceptional cases is for the Federal Government to pay to the States a portion, fixed by law, of the receipts from the property in question. Receipts from the following sources are subject to such contributions at the rates indicated:

	Percent
Water power sales by Tennessee Valley Authority	5
Gross receipts, national forests	25
Net receipts, wild-life refuges	25
Charges for use of Federal lands, including national forests and parks, for water power development	$37\frac{1}{2}$
Mining bonuses, royalties and rentals from public lands and certain Indian reservations	$37\frac{1}{2}$
Grazing fees on Taylor Grazing Act districts	50

In all of the above cases the base for the percentage contribution is gross receipts, except for the wildlife refuges, where the expenses directly connected with this income are deducted before applying the contribution rate.

The question of local taxation has also given rise to recent (1936) Federal legislation 6/ affecting the slum-clearance and low-cost housing

6/ Cf. Public - No. 837 and No. 845 - 74th Congress.

projects of the Public Works Administration and the resettlement and rural rehabilitation projects of the Resettlement Administration, where property is held temporarily in Government ownership. The respective administrations have been granted authority to enter into agreements with any State or political subdivision under which the Federal Government will make fixed payments in lieu of taxes based upon the cost of the public or municipal services to be supplied in connection with a project, but taking into consideration the benefits to be derived by the State or subdivision from such project.

A temporary Federal disbursement in favor of local public revenue was also provided for in the case of the Oregon and California railroad grant lands, title to which was revested in the United States by the Act of June 9, 1916, (39 Stat. 222). Under that act the Federal Government

gave the counties in which these lands were located a 25-percent interest in the proceeds from their prospective liquidation. By the Act of July 13, 1926, (44 Stat. 415), the counties were reimbursed for property taxes on these lands beginning with 1916, the amounts determined by applying the local tax rates to the assessed values of 1915. These payments, according to a report which was before both houses when the act was adopted, were regarded as an advance to the counties of their share of the prospective proceeds from liquidation of these lands rather than as taxes. Beginning with 1932, they have been much less than the sums levied, through a ruling of the Comptroller General limiting the amounts thus disbursed to the actual proceeds from these lands available under the Act of June 9, 1916.

In the District of Columbia, Congress has for many years given some support to local government; in recent years through lump sum contributions in lieu of taxes on Federal property appropriated annually under no fixed principle. The amount of this contribution has been the subject of endless controversy, and, as previously mentioned, a solution of this problem is now being sought.

It is evident, then, that no consistent principle has thus far been evolved for treating the problems brought about by the tax-exempt status of Federal property. Legislation has been piece-meal and opportunist in character. Recent Federal policies involving large acquisitions of private lands have increased the need for a consistent and sound solution, and, as stated before, the whole problem is now under investigation.

State, County and Municipal Property

An incomplete study of the situation 7/ indicates that a large

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7/ A more complete study is being made and a much more detailed report will be available.

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majority of the States have adopted legislation designed to aid local governments or taxing districts containing State and other publicly owned property. Apparently such legislation has most often been passed to take care of some special situation where an acute need was apparent. Thus, a common type of legislation found in 15 out of the 24 States which have been completely surveyed provides that special assessments for certain classes of needed public improvements, such as street paving, lighting, water supply, sewage disposal, drainage, irrigation, flood control, and the like, may apply to specified items or classes of public property. However, 12 out of these 24 States authorize direct taxation for general revenue purposes of specified classes of public property by one or more of the taxing districts in which such property is located; and 8 out of the 24 authorize monetary contributions in place of taxes on specified classes of property. Less than one-third of the 41 States which provide by law for State forests, or their equivalent, provide for their taxation or for any payment in lieu of taxes. Such forests are taxable locally in Iowa 8/, New York, North Carolina, in one county each of Florida 8/ and Texas. The only State where any

8/ State forests have been authorized but not yet acquired.

considerable sum is involved in such taxation is New York. Grants approximating local taxation on State forests are made by Connecticut, Massachusetts, and New Hampshire. Specific sums per acre are paid on State forest lands as an aid to local functions in Michigan, New Jersey, and Pennsylvania, and likewise on county forest lands in Wisconsin. A portion of gross receipts from State forests is authorized to be paid in lieu of taxes by Minnesota, Mississippi, South Carolina, and Virginia.

In Washington the law requires that a portion of receipts from such of the State forest lands as originally were acquired by a county through tax deed and transferred to the State be paid to the county for distribution in the same manner as local taxes. This payment is designated as the remainder after deducting from gross receipts 10 percent thereof for the forest development fund of the State, plus the cost of administration, fire protection, and reforestation of these lands.

Two States recognize the responsibility for aiding local governments, the revenues of which are affected by the presence of national forests. In New Hampshire, the State tax commission assesses national-forest lands as private property and annually determines the tax which would have been collected in each town on account of these lands if they had been taxed at the current rate. From this potential tax is then deducted the town's share of the 25-percent fund, the remainder being the net tax loss. The town is reimbursed to the extent of one-half of such net tax loss through abatement of the State tax levied in the town, or, if that is not enough, through payment from general funds of the State. Pennsylvania provides a payment for local government of 5 cents per acre on national-forest lands, as well as on State forest lands, this payment to be continued until the Federal contribution equals or exceeds that of the State. Of this 5 cents, 1 cent is for the county, 2 cents for school districts and 2 cents for township roads.

Certain other States give special grants in aid to school districts containing national forests. For example, Washington makes such a special grant on the basis of pupils residing in national forests and in other Federal reservations, amounting to 12-1/2 cents per pupil-day. This grant is in addition to the regular school aids which are independent of the presence of Federal lands.

European Public Forests

The only readily available information as to how European nations handle the question of the taxation of publicly owned forests relates to six continental countries where forestry is well established on both public and private lands, namely, France, Germany, Switzerland, Sweden, Norway, and

Finland. 9/ This information was largely obtained in the years 1930-33, but

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9/ Fairchild, Fred Rogers and Associates. Forest Taxation in the United States. U.S.D.A. Misc. Pub. 218, October 1935, pp. 454, 474, 491, 499, 508, and 513.

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the arrangements then existing were for the most part of long standing, representing fixed policies. In Great Britain this question does not arise because agricultural lands and woodlands, even though privately owned, are not subject to local taxation. It may be noted, however, that the British National Government pays local taxes on property which it occupies on the same basis as any private person, except that the valuation is made by a treasury officer instead of the ordinary local authority. 10/ In general,

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10/ Murdoch, Frank B. The English rating system. Bulletin of the National Tax Association, v. 21, no. 5, pp. 137-143, February 1936.

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publicly owned forests in the above-mentioned countries are subject to taxation, except by the governmental entity which owns the forest, in the same manner as privately owned forests.

In France, Sweden, and Norway, national forests are subject to full local taxation. In Finland, except in three of the northernmost provinces, they are subject to only three-fourths of the full local tax. In Germany, taxation of national forests has always been subject to limitation and they are said to have been specifically exempted from all direct taxes by a law enacted in 1934. 11/ National forests are negligible in importance in

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11/ Mantel, Kurt. Die waldbesteurung nach der steuerreform vom 16. Oktober, 1934. (Taxation of Forest Lands According to the Tax Reform of October 16, 1934.) Forstwissenschaftliches Centralblatt, v. 57, no. 9, p. 285, May 1, 1935.

Switzerland.

The Swiss States or Cantons, however, own substantial areas of public forests, and most of them submit these forests to full local taxation. In the exceptional Cantons, tax exemption is compensated by liberal subventions to communes containing Cantonal forests.

Forests owned by the local units of government are subject to taxation in all of the six countries on much the same terms as private property, except in Germany where their tax status is said to be the same as that of national forests.

It should be explained, however, that taxation of national and State

forests in the above-mentioned countries does not have quite the same meaning that it would have in this country. Local taxation in these countries is less erratic and better administered than in the United States. Also, these countries rely less heavily than the United States on taxes based on property as such, and more on personal income and business taxes.

3. Existing National-Forest Contributions

The extent to which Federal property outside the national forests and property belonging to the States is made a basis for contributions in support of local government has been reviewed. The treatment of similar problems in certain European countries has been described. It is now in order to consider the existing arrangements in respect to national forests.

Roads, Fire Protection, and Other Services

The Federal Government spends large sums annually for the construction and maintenance of roads and trails in and near the national forests. Part of this money is from the 10 percent of gross receipts prescribed by Act of March 4, 1913 (37 Stat. 843) and part is from specific appropriations. In the absence of Federal funds certain of these roads would have been provided for at State and local expense.

The Federal Government also spends substantial amounts annually protecting the national forests from fire. A part of this protective effort, in the absence of the national-forest protection system, would have been provided for at State and local expense.

To some extent law enforcement, game protection, and other services are performed by the national-forest administrative agencies, which services would otherwise be at the expense of State and local governments.

The above-mentioned expenditures for roads, fire protection, law enforcement, and the like, which would otherwise have to be carried at State and local expense, are direct contributions to local government which would not be expected from private owners. Therefore they may properly be considered as a direct offset to loss of taxes.

Federal administration of the national forests brings many other substantial benefits to the localities and States, which need not be dwelt upon here. 12/ It is clear that these benefits increase and stabilize

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12/ Kneipp, L.F. The national forests as a form of federal aid to the states. Sen. Doc. No. 12, Separate No. 12, pp. 1098-1101, Washington, D.C., 1933.

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local tax-paying ability. However, benefits of a similar order flow from private enterprise through the development of natural resources, purchase of goods, and employment of persons locally, without affecting the obligation of the owners of such enterprise to support government. The fact that such benefits flow in larger measure from the national forests than if these lands were not in Federal ownership is an argument for the retention of this form of ownership. It has little direct bearing, however, on the extent to which the Federal Government may be considered obligated to assist in supporting local government, because the effect of such benefits

on the financial status of local governments cannot be measured.

The 25-Percent Fund

The payment to the States of a share of national-forest receipts to be used for school and road purposes in the counties where national forests are located was inaugurated by the Act of March 6, 1906 (36 Stat. 1256, 1276), which fixes this share at 10 percent. By the Act of May 23, 1908 (35 Stat. 260), this share was increased to 25 percent. The purpose of this payment was to avoid the danger that the tax-free status of the national forests would either cripple local units of government or entail an unfair burden on the taxpayers of such units. Accordingly, it was expected to allay local opposition to the national-forest system.

The division of the 25-percent fund between schools and roads is left to the States. Many of the national-forest States have adopted legislation specifying the manner in which this money shall be apportioned among the different funds in the counties concerned. An incomplete survey of this legislation (covering only the States in which counties were selected for special study) indicates that in many States an equal division between the two functions are provided. Such is the arrangement in California, Florida, Minnesota, and Washington. In some cases an unequal division is made, as in Oregon where 75 percent goes to roads and 25 percent to schools. In Arkansas, the legislation would apparently indicate that all of the 25-percent fund should be used for schools, but it was found, in Montgomery County, that a varying portion of this fund is used for roads. In Wisconsin, if the annual payment to a county is less than $500, it is all used for school aid in school districts included within national-forest boundaries, but if the payment exceeds $500, 75 percent is used for such school aid and 25 percent for highways within or leading to the national forests. The legislature of Alabama has directed Lawrence and Winston counties to use the first $500 which they receive from the 25-percent fund for schools and the second $500 for roads, but gives Franklin County the privilege of disposing of its share in this fund as it shall see fit. In Colorado the counties also have free hand to divide their 25-percent money between roads and schools, with the restriction that at least 5 percent must be spent for one of these purposes. New Hampshire apportions the fund to the towns in proportion to area of national forest in each, but leaves division between roads and schools to be determined by the respective town meetings. North Carolina has legislated to the effect that the 25-percent money be paid into the general funds of the counties affected but makes no requirement as to its use. A few national-forest States, including Louisiana, South Carolina, and Tennessee have no legislation on this subject.

The Local Viewpoint

In most of the localities where national forests occur, the present fiscal relations between the Federal and local governments are accepted without much thought. Many of the local governments have sufficient resources so that the amount of Federal contribution is a matter of no great moment. Where the national forests were created entirely or largely

from the public domain, the local governments never enjoyed tax revenues from those lands and have generally adjusted themselves to that condition, even in the less wealthy localities. Nevertheless, the following typical causes for complaint have arisen: the first five of which relate to public-domain forests.

(1) Sharp reductions in the 25-percent fund caused by falling-off in national-forest receipts, due either to local causes, as the completion of a large timber sale, or to general causes, such as widespread economic depression.

(2) Meager revenue from the 25-percent fund in counties where national forests on account of public policy, economic conditions, or poverty of resources are not yielding any substantial receipts.

(3) Inequitable distribution of the 25-percent payment where a national forest located in more than one county differs markedly among the different counties in productive capacity per acre, its apportionment being on an acreage basis.

(4) Loss of potential revenue from the 25-percent fund when timber is exchanged for land instead of being sold for cash.

(5) Failure in some cases of the 25-percent fund to give the greatest possible local benefit because of the restriction on its use to schools and roads.

(6) Reduction in existing tax base through acquisition of lands by purchase, exchange, or donation. The resulting loss in tax revenue may actually be very small where acquisition involves chiefly cut-over lands, as taxes on such lands, unless nominal in amount, are likely to be uncollectible in a high percentage of cases. It may be serious, however, where lands bearing merchantable timber are involved. Such timber may be withheld from sale for some years, or, if not, the 25-percent payment may have to be shared with other counties, under the acreage rule of distribution. The situation is especially difficult where the expected tax revenue from acquired lands is needed to meet debts incurred prior to acquisition.

In the past, the Forest Service, while admitting that the existing fiscal arrangements are not perfect and that hardships may occur in some cases, has met such complaints by stressing the contributions and benefits to the local communities from national-forest administration and the liberal character of the 25-percent payment in comparison with customary forest-yield taxes, other special taxes based on gross receipts, and the proportion of gross receipts actually taken by property taxes in other businesses involving ownership of real estate. Representatives of the local viewpoint have attacked with some justice the setting-up of all Forest Service expenditures on roads and trails as contributions to local government equivalent to the payment of the same amounts in taxes. Some proponent of the local viewpoint have even contended for the right to tax national forests as if they were privately owned, with no allowance at

all for special services not required or expected of private owners.

The Federal Viewpoint

There has in the past been some diversity of opinion within the Forest Service as to the merits of the existing method of contributing to local government. There has been a feeling that to admit any departure from the 25-percent method would open the door to much larger contributions, thus increasing the current charge to the national-forest undertaking. On the other hand, its disadvantages have been recognized. The inadequacy to meet local needs in individual situations has already been mentioned. This defect has recently come to be an obstacle to the acquisition program.

An inherent disadvantage, from the Federal viewpoint, involved in giving local governments a definite share in the national-forest receipts is the local interest thus aroused in stimulating national-forest income. On this account, local pressure may be exerted to increase timber sales or other revenue producing activities to an extent inimical to the broad public interest. The possibility that such pressure might affect national-forest management has been recently used as an argument against the administration by the Forest Service of lands which are held to be chiefly valuable for recreational purposes. 13/ However, that tendency to exert

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13/ Horning, W.H. The other side of Olympus. Journal of Forestry, v. 34, no. 8, p. 754. August 1936.

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such pressure on behalf of the local government is overshadowed by the strong incentive to stimulate timber sales and other revenue producing activities of the national forests on behalf of local business generally. This incentive is founded on the prospect of increased pay rolls, new manufacturing plants, and augmented volume of business in all related lines.

A more important disadvantage of the 25-percent contribution is that when the national forests attain full productivity, the amount of the contribution will presumably be greatly increased; quadrupled according to the estimates obtained in Kneipp's study. 14/ It is easy to show that

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14/ Kneipp, L.F. The national forests and their relation to state and county taxes. (Cf. section entitled, "General Discussion", p. 22.) Mms. report in Lands files.

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judged by the usual standards, 25 percent of the gross receipts from forests which are on a fully productive basis would be an excessive tax, even without considering the special services to State and local government not required of the private taxpayer which are rendered by the Federal Government in connection with the national forests. The fact that sound public policy places so many limitations on financial returns from the national forests reduces somewhat the gravity of this danger.

Whatever its disadvantages, the 25-percent method thus far has held the aggregate monetary contributions to local government to reasonable figures. While attempts to raise the share of the local governments to a higher proportion of receipts than 25 percent have been numerous, they have thus far been unsuccessful. However, it is a question whether this ground can be held indefinitely unless something more is done to assist the local governments most adversely affected under the present arrangement.

Relation to Local Public Finance

The relation of existing national-forest contributions to local public finance can best be considered in relation to actual conditions in the counties affected. These conditions will be discussed in the succeeding section.

4. Conditions in Selected Counties

In order that the conclusions and recommendations of this study should be substantially bottomed on facts, 30 selected counties were subjected to intensive field investigation. (The detailed county reports are available in the files of the Forest Taxation Inquiry.) These counties, each containing national-forest lands, were chosen as representative of conditions in the several important forest areas of the United States. Distribution of the counties by regions is as follows: 1 in New England, 14 in the Southern Appalachian and Southern territories, 3 in the Lake States area, 3 in the Rocky Mountain region, and 9 in the Pacific States.

The intention was to select for intensive study counties that are representative of varying conditions with respect to such significant factors as forest cover, site quality, length of period of Federal ownership of lands, current productivity of national forest, importance of special uses of national-forest lands, ratio of national-forest area to entire area of county, relation of national forest to economic life of county, and fiscal status of county. In the Southern and Lake States areas a conscious attempt was made to choose counties that were regarded as being in the "problem" category with respect to current fiscal status; in all other regions the intention was to select counties fairly representative of a broad range of diversified conditions.

The 24 tables incorporated in this section are intended to summarize the more important and more relevent statistical data with respect to these 30 counties and their fiscal relationships to the national forests. The tables, which are numbered consecutively, are paired for the presentation of similar data; i.e., the tables designated by odd numbers cover the counties of the Pacific and Rocky Mountain regions, while those designated by even numbers cover in a corresponding manner all counties lying east of the hundredth meridian. The basis of this division is geographic, and the result is logical in that the national forests of the western region are composed largely of public-domain lands, whereas the national forests of the eastern region have in the main been acquired by purchase.

General Economic Status 15/

The first six tables present basic data with respect to the area, population, and distribution of area and value of real property as between public and private ownership in those selected counties. All figures are shown for the county, taken in the entirety, with the single exception of Grafton County, New Hampshire, for which the data relate only to 15 towns in which national-forest lands are located, out of a total of 39 in the county.

Tables 1 and 2 show that the selected counties range in size from Johnson County, Tennessee, 188,000 acres, to Lane County, Oregon, 2,958,000 acres. Western counties are of greater area, on the average, than those of the eastern territory; furthermore, these western counties generally have a larger portion of their total area in public ownership than do the eastern counties. The ratios of the national-forest land to total county area range from 93.2 percent in Mineral County, Colorado, to 4.9 percent in Sharkey County, Mississippi.

Tables 3 and 4 show wide variations among counties with respect to number and density of population. San Diego County, California, heads the list with the largest number of inhabitants and the highest density of population; Mineral County, Colorado, stands at the opposite extreme in both respects. Attention is directed to the fact that columns 3 to 6 of tables 3 and 4 are not reliable indices of the dependence of the economic life of the county upon the national forests. To illustrate: The entire county of Winston, Alabama, lies within the boundaries of the Black Warrior National Forest, yet less than 1 percent of its population now stands in any economic relationship to the forest. In contrast, Columbia County, Florida, has only 1.1 percent of its population within the boundaries of the Osceola National Forest, while almost 5 percent of the population is dependent on the forest for livelihood.

The figures on value of real property by ownership classes, as shown in tables 5 and 6, are based primarily on estimates, and should be regarded as approximations, subject to wide margins of error, rather than as precise values. The problem of evaluating the public-domain national forests was a particularly difficult one, since these lands had never been involved in any market transactions, and no available appraisal techniques were altogether satisfactory.

The national forests of greatest value are not necessarily those which represent the highest ratio of national-forest value to total county real-property value. Lane County, Oregon, contains national-forest land of greater value than any other selected county, but it has a ratio to the county total of only 11.3 percent. In contrast, Montgomery County, Arkansas, contains national-forest land which is valued at less than one-seventh of that in Lane County, yet the national-forest lands represent

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15/ See tables 1 - 6.

TABLE 1

LAND AREA, BY OWNERSHIP 1/

Selected Counties in Pacific Coast States and Colorado

State and county	County total	In public ownership: National Forest: Area	In public ownership: National Forest: Ratio to county total	In public ownership: Other: Area	In public ownership: Other: Ratio to county total	In private ownership: Area 2/	In private ownership: Ratio to county total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	1,000 acres	1,000 acres	Percent	1,000 acres	Percent	1,000 acres	Percent
California:							
Del Norte	655	404	61.6	11	1.7	240	36.7
El Dorado	1,112	397	35.7	23	2.1	692	62.2
Plumas	1,660	1,052	63.4	26	1.5	582	35.1
San Diego	2,701	273	10.1	863	31.9	1,565	58.0
Trinity	1,981	1,351	68.2	83	4.2	547	27.6
Colorado:							
Larimer	1,682	602	35.8	221	13.1	859	51.1
Mesa	2,024	570	28.2	793	39.1	661	32.7
Mineral	554	517	93.2	1	0.2	37	6.6
Oregon:							
Crook	1,878	359	19.1	698	37.2	821	43.7
Deschutes	1,962	808	41.2	705	35.9	449	22.9
Lane	2,958	1,348	45.6	377	12.7	1,233	41.7
Washington:							
Lewis	1,560	430	27.6	118	7.5	1,012	64.9

1/ Sources of data:
Column 1, from the Fifteenth Census of the United States, 1930.
Column 2, net area of June 30, 1936, from Forest Service records.
Column 4, from various public records - most recent available figures.
Columns 3, 5, 6, and 7 by computation.

2/ Since these figures were derived by subtracting columns 2 and 4 from column 1, they do not necessarily agree with area shown on assessment rolls, although they should check roughly with these figures after making allowance for differences which are accounted for by errors in the records, areas of roads, etc.

TABLE 2

LAND AREA, BY OWNERSHIP 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	County total	In public ownership: National Forest: Area	In public ownership: National Forest: Ratio to county total	In public ownership: Other: Area	In public ownership: Other: Ratio to county total	In private ownership: Area 2/	In private ownership: Ratio to county total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	1,000 acres	1,000 acres	Percent	1,000 acres	Percent	1,000 acres	Percent
Alabama:							
Lawrence	448	86	19.2	15	3.4	347	77.4
Winston	403	71	17.7	0	0.0	332	82.3
Arkansas:							
Montgomery	511	250	49.0	0	0.0	261	51.0
Florida:							
Baker	380	79	20.7	0	0.0	301	79.3
Columbia	502	77	15.4	0	0.0	425	84.6
Louisiana:							
Grant	437	125	28.6	4	0.8	308	70.6
Natchitoches	825	112	13.6	21	2.5	692	83.9
Mississippi:							
Sharkey	270	13	4.9	7	2.7	250	92.4
Stone	284	40	14.2	23	7.9	221	77.9
North Carolina:							
Macon	328	143	43.5	3/	0.1	185	56.4
South Carolina:							
Berkeley	770	184	23.9	0	0.0	586	76.1
Tennessee:							
Johnson	188	40	21.3	0	0.0	148	78.7
Texas:							
Houston	788	92	11.7	13	1.7	683	86.6
Trinity	458	72	15.9	2	0.4	384	83.7
New Hampshire:							
Grafton, National Forest Towns	520	283	54.5	7	1.3	230	44.2
Minnesota:							
Cook	936	500	53.4	161	17.2	275	29.4
Lake	1,357	580	42.8	160	11.8	617	45.4
Wisconsin:							
Forest	659	279	42.4	87	13.1	293	44.5

1/ Sources of data:
Column 1, from the Fifteenth Census of the United States and General Land Office records, 1930.
Column 2, net area of June 30, 1936, from Forest Service records -- tracts approved for purchase but not yet acquired are included.
Column 4, from various public records -- most recent available figures.
Columns 3, 5, 6 and 7, by computation.

2/ Since these figures are derived by subtracting columns 2 and 4 from column 1, they do not necessarily agree with area shown on assessment rolls, although they should check roughly with these figures, after making allowance for differences which are accounted for by approved lands not yet acquired, errors in the records, areas of roads, etc.

3/ Less than $500

TABLE 3

DISTRIBUTION OF POPULATION, 1930 1/

Selected Counties in Pacific Coast States and Colorado

State and county	County		Within National Forest boundary		Outside National Forest boundary	
	Total	Per square mile	Total	Ratio to county total	Total	Ratio to county total
	(1)	(2)	(3)	(4)	(5)	(6)
	Number	Number	Number	Percent	Number	Percent
California: 1935 2/						
Del Norte	4,960	4.8	400	8.1	4,560	91.9
El Dorado	10,612	6.1	1,847	17.4	8,765	82.6
Plumas	9,334	3.6	2,611	28.0	6,723	72.0
San Diego	236,988	56.0	1,000	0.4	235,988	99.6
Trinity	4,049	1.3	1,925	47.5	2,124	52.5
Colorado:						
Larimer	33,137	12.6	1,232	3.7	31,905	96.3
Mesa	25,908	8.2	60	0.2	25,848	99.8
Mineral	740	0.9	740	100.0	0	0.0
Oregon:						
Crook	3,336	1.1	0	0	3,336	100.0
Deschutes	14,749	4.8	0	0	14,749	100.0
Lane	54,493	11.8	6,500	11.9	47,993	88.1
Washington:						
Lewis	40,034	16.4	137	0.3	39,897	99.7

1/ Sources of data:
Columns 1 and 2, from the Fifteenth Census of the United States.
Columns 3 and 5, estimated, with assistance from local sources.
Columns 4 and 6, by computation.

2/ California:
Column 1, calculated from 1930 ratios of average daily attendance to population, as reported by State superintendent of public institutions, applied to average daily attendance 1934-35.

TABLE 4

DISTRIBUTION OF POPULATION, 1930 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	County		Within National Forest boundary		Outside National Forest boundary	
	Total	Per square mile	Total	Ratio to county total	Total	Ratio to county total
	(1)	(2)	(3)	(4)	(5)	(6)
	Number	Number	Number	Percent	Number	Percent
Alabama:						
Lawrence	26,942	38.5	800	3.0	26,142	97.0
Winston	15,596	24.8	15,596	100.0	0	0.0
Arkansas:						
Montgomery	10,768	13.7	8,264	76.7	2,504	23.3
Florida: 2/						
Baker	7,173	12.1	533	7.4	6,640	92.6
Columbia	15,382	19.4	173	1.1	15,209	98.9
Louisiana:						
Grant	15,709	23.0	4,212	26.8	11,497	73.2
Natchitoches	38,477	29.9	4,537	11.8	33,940	88.2
Mississippi:						
Sharkey	13,877	32.9	522	3.8	13,355	96.2
Stone	5,704	12.9	868	15.2	4,836	84.8
North Carolina:						
Macon	13,672	26.7	12,135	88.8	1,537	11.2
South Carolina:						
Berkeley	22,236	18.5	9,102	40.9	13,134	59.1
Tennessee:						
Johnson	12,209	41.5	10,737	87.9	1,472	12.1
Texas:						
Houston	30,017	24.4	3,900	13.0	26,117	87.0
Trinity	13,637	19.0	2,800	20.5	10,837	79.5
New Hampshire:						
Grafton, National Forest Towns	8,256	10.2	726	8.8	7,530	91.2
Minnesota:						
Cook	2,435	1.6	1,805	74.1	630	25.9
Lake	7,068	3.4	775	11.0	6,293	89.0
Wisconsin:						
Forest	11,118	10.9	8,084	72.7	3,034	27.3

1/ Sources of data:
Columns 1 and 2, from the Fifteenth Census of the United States.
Columns 3 and 5, estimated by local forest officers.
Columns 4 and 6, by computation.

2/ All figures for Florida counties are from the State Census of 1935.

TABLE 5

VALUE OF REAL PROPERTY BY OWNERSHIP, 1936 1/

Selected Counties in Pacific Coast States and Colorado

State and county	County total	National Forest 2/		Other Public ownership 2/ 3/		Private ownership	
		Amount	Ratio to county total	Amount	Ratio to county total	Amount	Ratio to county total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	1,000 dollars	1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent
California:							
Del Norte	19,838	187	0.9	160	0.8	19,491	98.3
El Dorado	33,051	5,234	15.8	4/	---	27,817	84.2
Plumas	52,905	9,370	17.7	55	0.1	43,480	82.2
San Diego	379,623	1,100	0.3	3,350	0.9	375,173	98.8
Trinity	9,274	2,172	23.4	4/	---	7,102	76.6
Colorado:							
Larimer	42,948	977	2.3	536	1.2	41,435	96.5
Mesa	22,732	612	2.7	198	0.9	21,922	96.4
Mineral	1,748	566	32.4	2	0.1	1,180	67.5
Oregon:							
Crook	10,267	2,018	19.6	697	6.8	7,552	73.6
Deschutes	22,280	3,203	14.4	535	2.4	18,542	83.2
Lane	91,170	10,329	11.3	4,849	5.3	75,992	83.4
Washington:							
Lewis	54,545	4,227	7.8	177	0.3	50,141	91.9

1/ Sources of data:
Columns 1, 3, 5, and 7 by computation.
Columns 2, 4, and 6 based on data obtained from estimates by forest officers, and various local sources.

2/ Not including improvements and urban building sites.
3/ Unreserved public domain has no value.
4/ Small amount, undetermined

TABLE 6

VALUE OF REAL PROPERTY BY OWNERSHIP, 1936 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	County total	National Forest 2/		Other public ownership 2/		Private ownership	
		Amount	Ratio to county total	Amount	Ratio to county total	Amount	Ratio to county total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	1,000 dollars	1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent
Alabama: 3/							
Lawrence	12,609	600	4.8	150	1.2	11,859	94.0
Winston	4,817	400	8.3	0	0.0	4,417	91.7
Arkansas:							
Montgomery	3,835	1,350	35.2	0	0.0	2,485	64.8
Florida:							
Baker	3,109	373	12.0	0	0.0	2,736	88.0
Columbia	7,853	412	5.2	0	0.0	7,441	94.8
Louisiana:							
Grant	4,242	399	9.4	10	0.2	3,833	90.4
Natchitoches	15,213	474	3.1	61	0.4	14,679	96.5
Mississippi:							
Sharkey	7,875	820	10.4	113	1.4	6,942	88.2
Stone	2,187	137	6.3	91	4.1	1,959	89.6
North Carolina:							
Macon	5,533	925	16.7	4/	---	4,608	83.3
South Carolina:							
Berkeley	11,500	1,600	13.9	0	0.0	9,900	86.1
Tennessee:							
Johnson	4,530	230	5.1	0	0.0	4,300	94.9
Texas:							
Houston	13,958	1,278	9.1	80	0.6	12,600	90.3
Trinity	6,532	337	5.2	10	0.1	6,185	94.7
New Hampshire:							
Grafton, National Forest Towns	11,773	1,553	13.2	186	1.6	10,034	85.2
Minnesota:							
Cook	3,751	1,254	33.4	312	8.3	2,185	58.3
Lake	8,951	1,037	11.6	309	3.4	7,605	85.0
Wisconsin:							
Forest	6,629	784	11.8	376	5.7	5,469	82.5

1/ Source of data:
Columns 1, 3, 5, and 7, by computation.
Columns 2, 4, and 6, estimates based on data obtained from forest officers.

2/ Not including improvements and urban building sites
3/ Value of public utility property, small amount not included.
4/ Less than $500.

35.2 percent of the value of all real property in Montgomery County. Furthermore, there is evidence of only partial correlation between the percent of county area in national forests and the percent of total county real-property value represented by national-forest lands. To illustrate: These respective percents are 93.2 and 32.4 for Mineral County, Colorado, and 61.6 and 0.9 for Del Norte County, California: In contrast, the respective percents are 19.1 and 19.6 for Crook County, Oregon, and 11.7 and 9.1 for Houston County, Texas. It is apparent that so many variable factors are present in the existing situation in each county that knowledge of any one factor gives only scant information regarding the total pattern of relationships within the county.

Local Public Finance 16/

Data relating to the revenues, disbursements, and debt status of

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16/ See tables 7 - 12.

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these selected counties are presented in tables 7 to 12. Here, again, the figures are not wholly dependable, because in some instances the original county records are incomplete and erroneous.

It may be noted, in connection with tables 7 and 8, that the property tax and subventions and grants are the sources of from 85 to 95 percent of total revenue receipts in nearly all counties. The importance of subventions and grants is perhaps the most striking aspect of the local revenue situation; considering all 30 counties in general, subventions and grants are a close rival of the property tax as a source of local revenues. School districts and highways are the major beneficiaries of State and federal grants. The growing importance of such subventions may be interpreted as evidence that the county, as now constituted, is no longer capable of performing the revenue-raising functions essential to the adequate support of the duties with which it is charged; also, that the States are taking cognizance of the fiscal difficulties of their local subdivisions, and are recognizing increasingly an obligation to assume larger responsibilities for the proper performance of local governmental functions.

It may be seen from tables 9 and 10, that the smaller and poorer counties are generally obliged to devote greater portions of their total expenditures to debt service than are the larger and wealthier ones. The plight of many counties in the Southern region in this respect is especially apparent. This conclusion is supported by figures in column 4 of tables 11 and 12; the ratio of current debt to value of privately owned real property is lower in only two of the 14 counties in the Southern area than the highest ratio found among any of the 12 counties in the Pacific and Rocky Mountain regions. Moreover, the comparison of columns 4 and 5 of tables 11 and 12 shows that in only very few counties is this ratio reduced significantly by adding the value of publicly owned property to the value of that held in private ownership. Further, it

TABLE 7

LOCAL GOVERNMENT REVENUES, COUNTY, SCHOOL, AND ROAD DISTRICT, 1935 1/

Selected Counties in Pacific Coast States and Colorado

State and county	Revenue receipts						Non-revenue receipts	Total all receipts
	Ad valorem property tax	Excises and licenses	Subventions and grants	Others	Total revenue receipts	Per capita		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	dollars	1,000 dollars	1,000 dollars
California:								
Del Norte	78	0	140	8	226	46	1	227
El Dorado	213	1	219	13	446	42	1	447
Plumas	217	2	175	10	404	43	1	405
San Diego	4,764	11	3,628	590	8,993	38	13	9,006
Trinity	96	1	105	8	210	52	0	210
Colorado:								
Larimer	972	2/	146	656	1,774	54	17	1,791
Mesa	731	2/	134	662	1,527	59	3	1,530
Mineral	16	2/	20	7	43	58	0	43
Oregon:								
Crook	117	0	5	3	125	37	0	125
Deschutes	381	0	35	8	424	29	4	428
Lane	1,520	0	74	24	1,618	30	1	1,619
Washington:								
Lewis	674	2	521	47	1,244	31	10	1,254

1/ Source of data:
Columns 1, 2, 3, 4, and 7, State and local records.
Columns 5, 6, and 8, by computation

2/ Data incomplete.

TABLE 8

LOCAL GOVERNMENT REVENUES, COUNTY, TOWNSHIP, SCHOOL, AND ROAD DISTRICT, 1935 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	Revenue receipts: Ad valorem property tax	Revenue receipts: Excises and licenses	Revenue receipts: Subventions and grants	Revenue receipts: Others	Revenue receipts: Total revenue receipts	Revenue receipts: Per capita	Non-revenue receipts	Total all receipts
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	Dollars	1,000 dollars	1,000 dollars
Alabama:								
Lawrence	67	4	170	7	248	9	19	267
Winston	41	3	135	9	188	12	25	213
Arkansas:								
Montgomery	48	0	23	2	73	7	0	73
Florida:								
Baker	33	2/	116	5	154	21	1	155
Columbia	89	2	171	8	270	18	75	345
Louisiana:								
Grant	122	36	117	12	287	18	47	334
Natchitoches	330	63	173	33	599	16	110	709
Mississippi:								
Sharkey	170	0	49	20	239	17	78	317
Stone	70	0	50	11	131	23	52	183
North Carolina:								
Macon	77	2/	3	33	113	8	0	113
South Carolina:								
Berkeley	213	1	74	5	293	13	66	359
Tennessee:								
Johnson	51	6	102	7	166	14	0	166
Texas:								
Houston 3/	218	25	214	5	462	15	0	462
Trinity	122	19	67	3	211	15	8	219
New Hampshire:								
Grafton, National Forest Towns 4/	292	11	58	61	422	51	0	422
Minnesota:								
Cook	165	3	63	13	244	100	156	400
Lake	287	4	126	19	436	62	3	439
Wisconsin:								
Forest	223	1	151	102	477	43	0	477

1/ Sources of data:
Columns 1, 2, 3, 4, and 7, State and local records. In some counties, latest year for which data were available substituted for 1935.
Columns 5, 6, and 8, by computation.

2/ Less than $500.

3/ Houston County data are taken from "Financial Statistics of State and Local Governments: 1931; Texas" (Bureau of the Census) and hence are not directly comparable with data presented for other counties.

4/ Revenue of towns only.

TABLE 9

LOCAL GOVERNMENT DISBURSEMENTS, 1935 1/

Selected Counties in Pacific Coast States and Colorado

State and county	Governmental cost payments: General government 2/	Governmental cost payments: Education	Governmental cost payments: Highways	Governmental cost payments: Current debt service	Governmental cost payments: Others	Governmental cost payments: Total governmental cost payments	Governmental cost payments: Per capita	Non-governmental cost payments	Total county disbursements
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	Dollars	1,000 dollars	1,000 dollars
California:									
Del Norte	54	91	34	9	44	232	47	9	241
El Dorado	71	190	66	12	66	405	38	13	418
Plumas	74	222	99	0	58	453	49	1	454
San Diego	1,260	3,996	652	606	2,120	8,634	36	649	9,283
Trinity	85	75	33	0	40	233	58	0	233
Colorado:									
Larimer	360	685	194	13	497	1,749	53	10	1,759
Mesa	136	496	108	42	566	1,328	51	24	---
Mineral	12	10	18	0	1	41	55	0	41
Oregon:									
Crook	20	54	9	12	10	105	31	23	128
Deschutes	38	270	19	3	37	367	25	45	412
Lane	127	905	231	42	67	1,372	25	86	1,458
Washington:									
Lewis	119	648	296	18	139	1,220	30	41	1,261

1/ Sources of data:
Columns 1, 5, and 8, State and local records.
Columns 6, 7, and 9, by computation.

2/ Including cost of protection to person and property, and cost of courts and judiciary.

TABLE 10

LOCAL GOVERNMENT DISBURSEMENTS, 1935 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	Governmental cost payments								
	General government 2/	Education	Highways	Current debt service	Others	Total governmental cost payments	Per capita	Non-governmental cost payments	Total county disbursements
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	dollars	1,000 dollars	1,000 dollars
Alabama:									
Lawrence 3/	17	149	56	33	3	258	10	---	258
Winston 3/	24	105	63	14	5	211	14	---	211
Arkansas:									
Montgomery	10	32	15	3	4	64	6	0	64
Florida:									
Baker	19	60	18	25	15	137	19	40	177
Columbia	34	109	17	63	5	228	15	89	317
Louisiana:									
Grant 3/	31	147	34	130	13	355	23	11	366
Natchitoches 3/	77	289	39	348	8	761	20	94	855
Mississippi:									
Sharkey	23	96	26	69	10	224	16	46	271
Stone	22	45	25	7	4	103	18	68	171
North Carolina:									
Macon 3/	17	8	0	52	5	82	6	3	85
South Carolina:									
Berkeley	23	142	25	22	20	232	10	112	344
Tennessee:									
Johnson 3/	31	81	50	22	1	185	15	---	185
Texas:									
Houston 4/	39	281	41	60	6	427	14	108	535
Trinity	17	5/ 108	24	11	2	162	12	52	214
New Hampshire:									
Grafton, National Forest Towns	33	228	107	17	248	633	77	0	633
Minnesota:									
Cook	35	5/ 80	43	5/ 20	4	182	75	5/ 212	394
Lake	66	145	66	5/ 21	37	335	47	5/ 10	345
Wisconsin:									
Forest	59	5/ 188	5/ 118	7	52	424	38	15	439

1/ Sources of data:
Columns 1, 5, and 8, State and local records. In some counties latest year in which data were available, substituted for 1935.
Columns 6, 7, and 9, by computation.

2/ Including cost of protection to person and property, and cost of courts and judiciary.

3/ Both current debt service and payments on debt principal included in 4 and 6, and excluded in column 8 -- segregation of items impossible.

4/ Houston County data are taken from "Financial Statistics of State and Local Governments: 1931; Texas" (Bureau of the Census) and hence are not directly comparable with data presented for other counties.

5/ Estimated.

TABLE 11

TREND IN NET DEBT OF COUNTIES AND RURAL CIVIL DIVISIONS, 1921-1936,

AND RATIO OF 1935-36 NET DEBT TO VALUE OF REAL PROPERTY 1/

Selected Counties in Pacific Coast States and Colorado

State and county	1921-22 2/	1931-32 3/	1935-36 4/	Ratio of 1935-36 debt to value real property in private ownership	Ratio of 1935-36 debt to total value real property
	(1)	(2)	(3)	(4)	(5)
	1,000 dollars	1,000 dollars	1,000 dollars	Percent	Percent
California:					
Del Norte	170	212	174	0.9	0.9
El Dorado	96	266	259	0.9	0.8
Plumas	95	45	5	5/	5/
San Diego	3,025	9,495	8,200	2.2	2.2
Trinity	0	19	0	0.0	0.0
Colorado:					
Larimer	1,768	1,241	326	0.8	0.8
Mesa	2,009	1,100	874	4.0	3.8
Mineral	12	0	0	0.0	0.0
Oregon:					
Crook	533	308	310	4.1	3.0
Deschutes	189	1,020	793	4.3	3.6
Lane	748	2,159	1,948	2.6	2.1
Washington:					
Lewis	310	913	---	6/ 1.8	1.7

1/ Sources of data:
Column 1, from Bureau of the Census, Financial Statistics of State and Local Governments: 1922
Column 2, from Bureau of the Census, Financial Statistics of State and Local Governments: 1932
Column 3, from State and local records.
Column 4, by computation from column 3 and Table 5, column 4.
Column 5, by computation from column 3 and Table 5, column 1.

2/ County only in California, Oregon, and Washington, cities and urban school districts are included in Colorado.
3/ Urban school districts included, special improvement districts excluded.
4/ Footnote 3/ applies except in Larimer and Mineral Counties, Colorado, where urban school districts are excluded.
5/ Less than 0.05 percent.
6/ Based on 1931-32 net debt.

TABLE 12

TREND IN NET DEBT OF COUNTIES AND RURAL CIVIL DIVISIONS, 1921-1936,

AND RATIO OF 1935-36 NET DEBT TO VALUE OF REAL PROPERTY 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	1921-22 2/	1931-32 3/	1935-36 4/	Ratio of 1935-36 debt to value real property in private ownership	Ratio of 1935-36 debt to total value real property
	(1)	(2)	(3)	(4)	(5)
	1,000 dollars	1,000 dollars	1,000 dollars	Percent	Percent
Alabama:					
Lawrence	177	219	5/ 270	2.3	2.1
Winston	186	198	232	5.2	4.8
Arkansas:					
Montgomery	165	175	191	7.7	5.0
Florida:					
Baker	408	260	207	7.6	6.7
Columbia	772	1,056	1,036	13.9	13.2
Louisiana:					
Grant	51	1,065	410	10.7	9.7
Natchitoches	1,111	2,037	1,306	8.9	8.6
Mississippi:					
Sharkey	1,724	2,227	1,199	17.3	15.2
Stone	89	190	118	6.0	5.4
North Carolina:					
Macon	344	923	830	18.0	15.0
South Carolina:					
Berkeley	113	452	369	3.7	3.2
Tennessee:					
Johnson	187	552	6/ 264	6.1	5.8
Texas:					
Houston	961	2,016	1,739	13.8	12.5
Trinity	639	1,388	1,409	22.8	21.6
New Hampshire:					
Grafton, National Forest Towns	7/	288	8/ 324	3.2	2.8
Minnesota:					
Cook	372	498	281	12.9	7.5
Lake	1,412	541	180	2.4	2.0
Wisconsin:					
Forest	378	267	145	2.6	2.2

1/ Sources of data:
Column 1, from Bureau of the Census, Financial Statistics of State and Local Governments: 1922.
Column 2, from Bureau of the Census, Financial Statistics of State and Local Governments: 1932.
Column 3, from State and local records.
Column 4, by computation from column 3 and table 6, column 4.
Column 5, by computation from column 3 and table 6, column 1.

2/ Cities and urban school districts included.
3/ Urban school districts included.
4/ Urban school districts included in counties of Minnesota and Wisconsin, levy and drainage districts excluded in all counties except Houston.
5/ Estimated.
6/ Exclusive of $260,000 of bonds which have been assumed by the State.
7/ Not available.
8/ 1934.

appears that the counties with relatively higher debt burdens have, on the average, been able to make less significant progress towards retiring their indebtedness than have the less burdened ones.

Contributions to State and Local Governments. 17/

Data covering the direct monetary contributions made by the national forests to the selected counties through the 25-percent fund are presented in tables 13 and 14. The figures appearing in columns 1, 2, and 3 of these tables are exact, in that they are based upon official records; the figures in column 4, on the other hand, are estimates submitted by local forest officers. It may be noted that the contributions from the older, established forests remained approximately constant, on the average, for the two periods, 1923-27 and 1928-35.

The relationship of the estimated payments for the 5-year period, 1937-41, to the average payments of the preceding 12 years varies markedly as between the Pacific and Rocky Mountain regions on the one hand and the Southern and Lake States territories on the other. Estimated future payments to the counties in the western area are only slightly in excess of payments made during recent years; in the counties of the eastern regions, on the other hand, the estimated future contributions are, with but few exceptions, several times as large as the actual recent and current contributions. The explanation of this disparity is that predictions of the volume of products to be cut can be made more readily and with greater probable accuracy in the case of the western forests, because of their mature status and stabilized utilization plans; the eastern forests, in contrast, are mainly acquired forests consisting largely of cut-over areas, and lacking historical records that might serve as a basis for estimates of future productivity. It is probable, therefore, that at least in some cases the estimates of future 25-percent fund payments for the Southern and Lake States reflect an unwarranted amount of optimism on the part of local forest officials. Furthermore, it is recognized that even if the estimates of future cuts were highly accurate, the inevitable uncertainty with respect to future prices per unit of product would serve to make figures of estimated future contributions in all parts of the country subject to error.

Data relating to national-forest contributions-in-kind are presented in tables 15 to 18. For purposes of this study, contributions-in-kind are defined as those services performed by the Federal government in connection with national-forests lands which relieve the States or counties of the necessity of providing for such services in their own budgets. In other words, contributions-in-kind include only Federal disbursements which may properly be regarded as taking the place of property taxes on national-forest lands.

17/ See tables 13 - 18.

TABLE 13

NATIONAL FOREST CONTRIBUTIONS TO LOCAL GOVERNMENT

THROUGH THE 25 PERCENT FUND 1/

Selected Counties in Pacific Coast States and Colorado

State and county	Average annual 1923-27	Average annual 1928-35	1936 2/	Estimated average annual 1937-41
	(1)	(2)	(3)	(4)
	Dollars	Dollars	Dollars	Dollars
California:				
Del Norte	818	528	1,376	500
El Dorado	3,868	5,192	5,913	5,200
Plumas	42,717	38,340	26,289	38,300
San Diego	811	1,222	1,430	1,200
Trinity	6,944	3,212	2,577	3,200
Colorado:				
Larimer	5,766	6,976	4,632	8,400
Mesa	5,729	5,655	6,785	5,400
Mineral	4,009	4,105	4,893	3,500
Oregon:				
Crook	2,376	1,849	1,474	1,800
Deschutes	10,747	10,129	3,676	10,100
Lane	11,247	15,530	12,934	15,500
Washington:				
Lewis	2,944	2,992	1,319	3,000

1/ Sources of data:
Columns 1 to 3, from Forest Service accounts
Columns 4 based on estimates by local forest officers.

2/ Preliminary, subject to revision

TABLE 14

NATIONAL FOREST CONTRIBUTIONS TO LOCAL GOVERNMENT

THROUGH THE 25-PERCENT FUND 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	Average annual 1923-27	Average annual 1928-35	1936 2/	Estimated average annual 1937-41
	(1)	(2)	(3)	(4)
	Dollars	Dollars	Dollars	Dollars
Alabama:				
Lawrence	95	83	6	4,600
Winston	62	55	4	3,800
Arkansas:				
Montgomery	2,627	2,253	5,401	7,900
Florida:				
Baker	...	3/ 2,222	8,418	5,900
Columbia	...	3/ 2,020	8,194	5,900
Louisiana:				
Grant	...	3/ 74	114	1,600
Natchitoches	...	3/ 27	51	1,500
Mississippi:				
Sharkey	...	...	...	19,400
Stone	...	3/ 31	68	300
North Carolina:				
Macon	1,682	1,935	1,494	2,500
South Carolina:				
Berkeley	...	...	314	7,000
Tennessee:				
Johnson	671	338	247	1,800
Texas:				
Houston	...	...	...	4,200
Trinity	...	...	...	3,000
New Hampshire:				
Grafton, National Forest Towns	2,458	3,739	3,868	7,700
Minnesota:				
Cook	352	472	419	3,500
Lake	453	619	446	4,500
Wisconsin:				
Forest	...	3/ 47	209	200

1/ Sources of data:
Columns 1 to 3, from Forest Service accounts.
Column 4 based on estimates by local forest officers.

2/ Preliminary, subject to revision.

3/ National forests not under administration during this entire period. Average annual contributions are computed on basis of all years beginning with first 25-percent fund contribution to county.

TABLE 15

NATIONAL FOREST CONTRIBUTIONS TO STATE AND LOCAL GOVERNMENT

THROUGH ROAD CONSTRUCTION AND MAINTENANCE 1/

Selected Counties in Pacific Coast States and Colorado

State and county	Construction: Average annual 1923-27	Construction: Average annual 1928-35	Estimated maintenance 1936	Estimated average annual maintenance and construction 1937-41
	(1)	(2)	(3)	(4)
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
California:				
Del Norte	124.2	26.3	0.3	26.6
El Dorado	17.0	126.3	1.3	127.6
Plumas	17.0	83.1	2.3	85.4
San Diego	11.5	22.5	1.5	24.0
Trinity	34.2	85.3	3.3	88.6
Colorado:				
Larimer	6.0	28.6	3.8	18.9
Mesa	24.3	2.0	15.2	2/ 15.0
Mineral	0	0	0	0
Oregon:				
Crook	3/ 33.0	34.0	0.2	34.2
Deschutes	3/ 65.5	85.0	2.9	87.9
Lane	3/ 135.0	161.0	5.0	166.0
Washington:				
Lewis	3/ 26.0	52.0	2.3	54.3

1/ Sources of data:
Data from Forest Service records and estimates, relating only to expenditures which would probably have been made out of State and local funds if the National Forests were privately owned, but with no radical departure from existing forest conditions.

2/ Maintenance only - no construction contemplated

3/ Including maintenance

TABLE 16

NATIONAL FOREST CONTRIBUTIONS TO STATE AND LOCAL GOVERNMENT

THROUGH ROAD CONSTRUCTION AND MAINTENANCE 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	Construction: Average annual 1923-27	Construction: Average annual 1928-35	Estimated maintenance 1936	Estimated average, annual construction and maintenance 1937-41
	(1)	(2)	(3)	(4)
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
Alabama:				
Lawrence	0	0	2.5	2.5
Winston	0	0	2.5	2.5
Arkansas:				
Montgomery	0	2.0	1.5	5.0
Florida:				
Baker	...	1.8	1.0	1.0
Columbia	...	2.4	1.2	1.2
Louisiana:				
Grant	...	1.5	0.8	2.4
Natchitoches	...	1.5	0.3	2.0
Mississippi:				
Sharkey	...	0	0	0
Stone	...	0	3.0	3.0
North Carolina:				
Macon	3.6	5.3	2.8	4.0
South Carolina:				
Berkeley	...	0	0	2.0
Tennessee:				
Johnson	4.0	3.0	0.4	0.8
Texas:				
Houston	...	1.0	0	3.0
Trinity	...	1.0	0	3.5
New Hampshire:				
Grafton, National Forest Towns	...	8.1	0.8	8.9
Minnesota:				
Cook	7.4	23.5	--	30.8
Lake	5.2	29.3	--	36.9
Wisconsin:				
Forest 2/	...	0	0	0

1/ Sources of data:
Data from Forest Service records and estimates, relating only to expenditures which would probably have been made out of State and local funds, if the national forests were privately owned but with no radical departure from existing forest conditions.

2/ Federal road building offset by county and town road system serving national forest. For further explanation see text.

TABLE 17

NATIONAL FOREST CONTRIBUTIONS TO STATE AND LOCAL GOVERNMENT THROUGH FIRE PROTECTION AND WILD-LIFE CONSERVATION 1/

Selected Counties in Pacific Coast States and Colorado

State and county	Fire protection 1935	Wild-life conservation 1935	Estimated average annual fire and wild-life 1937-41
	(1)	(2)	(3)
	1,000 dollars	1,000 dollars	1,000 dollars
California:			
Del Norte	0	0	0
El Dorado	5.6	0.4	6.0
Plumas	16.4	0.3	16.7
San Diego	11.6	0.1	11.7
Trinity	16.0	0.2	16.2
Colorado:			
Larimer	6.0	2/	6.0
Mesa	5.8	2/	5.8
Mineral	5.2	2/	5.2
Oregon:			
Crook	1.5	0.3	1.8
Deschutes	3.3	0.1	3.4
Lane	5.5	0.2	5.7
Washington:			
Lewis	3.4	0	3.4

1/ Sources of data:
Column 1, estimated with assistance of Division of State Cooperation.
Column 2, from Forest Service records.
Column 3, estimates based on columns 1 and 2.

2/ Negligible in amount.

TABLE 18

NATIONAL FOREST CONTRIBUTIONS TO STATE AND LOCAL GOVERNMENT

THROUGH FIRE PROTECTION AND WILD-LIFE CONSERVATION, 1937-41 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	Fire protection 1935	Wild-life conservation 1935	Estimated average annual fire and wild-life 1937-41
	(1)	(2)	(3)
	1,000 dollars	1,000 dollars	1,000 dollars
Alabama:			
Lawrence	0	0	0
Winston	0	0	0
Arkansas:			
Montgomery	0	0	0
Florida:			
Baker	0	0	0
Columbia	0	0	0
Louisiana:			
Grant	0	0	0
Natchitoches	0	0	0
Mississippi:			
Sharkey	0	0	0
Stone	0	0	0
North Carolina:			
Macon	0.7	0	0.7
South Carolina:			
Berkeley	0	0	0
Tennessee:			
Johnson	0	0	0
Texas:			
Houston	0	0	0
Trinity	0	0	0
New Hampshire:			
Grafton, National Forest Towns	4.2	2/ 0.2	4.3
Minnesota:			
Cook	5.2	0.2	5.4
Lake	6.0	0.2	6.2
Wisconsin:			
Forest	4.0	3/	4.0

1/ Sources of data:
Column 1, estimated with assistance of Division of State Cooperation.
Column 2, from Forest Service records.
Column 3, estimates based on columns 1 and 2.

2/ Insect control.

3/ Negligible in amount.

These figures on contributions-in-kind are based on estimates made by field investigators, and are offered with the frank admission that they are at best only rough approximations, subject to large possibilities of error. To illustrate the difficulties involved: In order to arrive at figures for contributions-in-kind toward road construction and maintenance, it is necessary to estimate what portion of total Forest Service outlays for that purpose would have been made by the States and local governments in the absence of any such Forest Service expenditures. In some instances Forest Service road construction is a matter of bargaining with local officials. Construction may depend upon the matching of Forest Service road funds with local funds. In such cases the availability of Forest Service funds may actually result in increased highway construction appropriations by the counties. In other situations, as in Forest County, Wisconsin, and Lane County, Oregon, it is necessary to make allowance for the additional maintenance costs to which the counties have been subjected by virtue of the superior type of road construction by the Forest Service. In still other instances, particularly in connection with the poorer counties, it is necessary to make allowance for the fact that Forest Service maintenance of roads has been more costly than would have been the maintenance of these roads had they been cared for by the counties. Unfortunately, no substitute for personal judgment in dealing with such problems was available. The resulting figures must be regarded as suggestive approximations, therefore, rather than as exact values.

It will be noted that tables 15 - 18 include contributions-in-kind to both State and local governments; contributions to the States are far more significant in connection with the older, larger, public-domain forests of the western regions than they are in connection with the newer, smaller, acquired forests of the eastern territories. This is especially true with respect to highway-construction outlays; major road-construction projects have been concentrated preponderantly in the western areas, and it is such highway projects which ordinarily represent contributions to the States, rather than to the local governments. A like conclusion holds in large part with respect to Forest Service expenditures for fire protection and wild life conservation; State governments in the Southern territory receive virtually no direct contributions from such Forest Service expenditures, because their limited appropriations for these purposes would not be increased if the Forest Service outlays for them were to be eliminated. Furthermore, the secondary road projects in all national-forest regions have, in many instances, involved road construction in areas which the local population was satisfied to leave inaccessible, and therefore cannot properly be regarded as in lieu of local highway expenditures.

National-forest contributions-in-kind are not necessarily restricted to outlays for highways and fire protection and wild life conservation, although these are undoubtedly the major items under that head. No attempt has been made to include such items as the supervision of relief work, or the elimination of the costs of assessing and collecting taxes on national-forest lands, or other comparable items; the advisability of including such items as contributions-in-kind is debatable, and any attempted estimates of them would, at best, be highly unreliable.

Comparison of Potential Taxes With Contribution 18/

18/ See tables 19 - 24.

Tables 19 to 24 are comparisons of potential taxes on national-forest lands with the contributions from the national forests to State and local governments. "Potential taxes" is defined as the receipts from ad valorem levies that would be imposed on the national-forest lands in the selected counties if they were subject to assessment and taxation as are other similar lands. It is assumed (1) that the national-forest lands would be assessed at the same percentage of true value as are comparable lands, but that those portions of the public-domain forests which would not be held in private ownership have no present value; (2) in the public-domain forest counties, that the amount of the county budget to be raised by taxes would not be increased except by the amount of the present Forest Service contributions to the county; and in the eastern acquired-forest counties, that the millage rates imposed currently by States, counties, and school and road districts would remain in force; and (3) that the same ratio of tax collections to tax levies would hold for the national-forest lands as has obtained recently with respect to similar lands in each of these counties. It will be noted that tables 19-22 cover taxes and contributions to both State and local governments, the latter including only counties, townships, and school and road districts, while tables 23 and 24 cover local taxes only.

Estimated potential taxes do not correlate perfectly with estimated capital values of national-forest lands, the divergencies arising out of variations among counties as to assessment ratio, local government costs, degree of dependency of the local government on the property tax, and rate of delinquency. From the examination of tables 19 and 20, column 5, it appears that in California, Colorado and Minnesota total estimated contributions are in excess of total potential taxes in all counties surveyed but one, whereas the contrary relationship obtains in some of the other States. Such negative values as appear in certain counties of the southern territory are included with reservation as to their accuracy because of the possibility, mentioned before, that estimates of future 25-percent fund payments may be overstated for the southern forests. The excess of contributions in the California, Colorado and Minnesota counties is attributable more to heavy contributions-in-kind than to large 25-percent fund payments.

Column 1 of tables 21 and 22 shows the excess of potential taxes on national forests over contributions-in-kind; these amounts are the direct monetary contributions (either from the 25-percent fund or other source), which the Federal Government would have to make if it were to reimburse the States and counties to the full amount of the taxes of which they are deprived by national-forest ownership. Column 2 of the same tables shows the tax rate on the present full values of the national forests which would be necessary to produce this monetary contribution in all cases when there was an excess of potential taxes over contributions-in-kind. The maximum of these rates is 2.6 percent. The significance of figures appearing in column 3, is that a figure less than 25 percent indicates that the anticipated 25-percent

TABLE 19

COMPARISON OF TOTAL POTENTIAL TAXES ON NATIONAL FOREST LANDS

WITH NATIONAL FOREST CONTRIBUTIONS TO STATE AND LOCAL GOVERNMENT 1/

Selected Counties in Pacific Coast States and Colorado

State and county	Potential taxes on national forests (State and local)	Contributions			Excess of potential taxes over contributions 2/
		25-percent fund cash payment	In-kind (State and local)	Total	
	(1)	(2)	(3)	(4)	(5)
	Dollars	Dollars	Dollars	Dollars	Dollars
California:					
Del Norte	1,400	500	26,600	27,100	-25,700
El Dorado	39,900	5,200	139,000	144,200	-104,300
Plumas	41,600	38,300	101,600	139,900	-98,300
San Diego	13,300	1,200	44,200	45,400	-32,100
Trinity	29,900	3,200	104,800	108,000	-78,100
Colorado:					
Larimer	21,700	8,400	24,900	33,300	-11,600
Mesa	18,300	5,400	20,800	26,200	-7,900
Mineral	11,300	3,500	5,200	8,700	2,600
Oregon:					
Crook	49,100	1,800	36,000	37,800	11,300
Deschutes	76,000	10,100	91,300	101,400	-25,400
Lane	231,100	15,500	171,800	187,300	43,800
Washington:					
Lewis	93,400	3,000	57,600	60,600	32,800

1/ Sources of data:
Column 1, estimates.
Column 2, from table 13, column 4.
Column 3, from table 15, column 4 and table 17, column 3.
Columns 4 and 5, by computation.

2/ A negative sign in this column represents an excess of contributions over potential taxes.

TABLE 20

COMPARISON OF TOTAL POTENTIAL TAXES ON NATIONAL FOREST LANDS

WITH NATIONAL FOREST CONTRIBUTIONS TO STATE AND LOCAL GOVERNMENT 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	Potential taxes on national forests (State and local)	Contributions			Excess of potential taxes over contributions 2/
		25-percent fund cash payment	In-kind (State and local)	Total	
	(1)	(2)	(3)	(4)	(5)
	Dollars	Dollars	Dollars	Dollars	Dollars
Alabama:					
Lawrence	4,000	4,600	2,500	7,100	-3,100
Winston	3,800	3,800	2,500	6,300	-2,500
Arkansas:					
Montgomery	11,000	7,900	5,000	12,900	-1.900
Florida:					
Baker	9,600	5,900	1,000	6,900	2,700
Columbia	5,200	5,900	1,200	7,100	-1,900
Louisiana:					
Grant	12,800	1,600	2,400	4,000	8,800
Natchitoches	12,000	1,500	2,000	3,500	8,500
Mississippi:					
Sharkey	8,400	19,400	0	19,400	-11,000
Stone	3,500	300	3,000	3,300	200
North Carolina:					
Macon	6,000	2,500	4,700	7,200	-1,200
South Carolina:					
Berkeley	20,000	7,000	2,000	9,000	11,000
Tennessee:					
Johnson	3,300	1,800	800	2,600	700
Texas:					
Houston	13,600	4,200	3,000	7,200	6,400
Trinity	7,900	3,000	3,500	6,500	1,400
New Hampshire:					
Grafton, National Forest Towns	28,000	7,700	13,200	20,900	7,100
Minnesota:					
Cook	25,100	3,500	36,200	39,700	-14,600
Lake	20,700	4,500	43,100	47,600	-26,900
Wisconsin:					
Forest	15,200	200	4,000	4,200	11,000

1/ Sources of data:
Column 1, estimates.
Column 2, from table 14, column 4.
Column 3, from table 16, column 4, and table 18, column 3.
Columns 4 and 5, by computation.

2/ A negative sign in this column represents an excess of contribution over potential taxes.

TABLE 21

COMPARISON OF EXCESS OF POTENTIAL STATE AND LOCAL TAXES

ON NATIONAL FORESTS OVER CONTRIBUTIONS-IN-KIND WITH NATIONAL FOREST VALUE,

AND WITH EXPECTED AVERAGE ANNUAL NATIONAL-FOREST GROSS RECEIPTS 1937-41 1/

Selected Counties in Pacific Coast States and Colorado

State and county	Excess of potential taxes on national forests over contributions-in-kind 2/	Ratio of Excess (Col. 1) to:	
		National forest value	Expected average annual national-forest gross receipts 1937-41
	(1)	(2)	(3)
	Dollars	Percent	Percent
California:			
Del Norte	-25,200	...	...
El Dorado	-99,100	...	...
Plumas	-60,000	...	...
San Diego	-30,900	...	...
Trinity	-74,900	...	...
Colorado:			
Larimer	-3,200	...	...
Mesa	-2,500	...	...
Mineral	6,100	1.1	44.0
Oregon:			
Crook	13,100	0.6	177.0
Deschutes	-15,300	...	...
Lane	59,300	0.6	95.6
Washington:			
Lewis	35,800	0.8	299.3

1/ Sources of data:
Column 1, by computation table 19, columns 1 and 3
Column 2, by computation column 1 and table 5, column 2
Column 3, by computation column 1 and table 13, column 4

2/ A negative sign in this column represents an excess of contributions-in-kind over potential taxes.

COMPARISON OF EXCESS OF POTENTIAL STATE AND LOCAL TAXES ON NATIONAL FORESTS OVER CONTRIBUTIONS-IN-KIND WITH NATIONAL-FOREST VALUE, AND WITH EXPECTED AVERAGE ANNUAL NATIONAL-FOREST GROSS RECEIPTS 1937-41 1/

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	Excess of potential taxes on national forests over contributions-in-kind	Ratio of excess (col. 1) to: National forest value	Ratio of excess (col. 1) to: Expected average annual national-forest gross receipts 1937-41
	(1)	(2)	(3)
	Dollars	Percent	Percent
Alabama:			
Lawrence	1,500	0.2	7.9
Winston	1,300	0.3	8.4
Arkansas:			
Montgomery	6,000	0.4	18.9
Florida:			
Baker	8,600	2.3	36.2
Columbia	4,000	1.0	17.0
Louisiana:			
Grant	10,400	2.6	162.9
Natchitoches	10,000	2.1	170.7
Mississippi:			
Sharkey	8,400	1.0	10.9
Stone	500	0.4	42.3
North Carolina:			
Macon	1,300	0.1	12.6
South Carolina:			
Berkeley	18,000	1.1	64.3
Tennessee:			
Johnson	2,500	1.1	35.7
Texas:			
Houston	10,600	0.8	62.2
Trinity	4,400	1.3	36.6
New Hampshire:			
Grafton, National Forest Towns	14,800	1.0	48.1
Minnesota:			
Cook	- 11,100	...	....
Lake	- 22,400	...	....
Wisconsin:			
Forest	11,200	1.4	1,000.0

1/ Sources of data:
Column 1, by computation table 20, columns 1 and 3
Column 2, by computation column 1 and table 6, column 2
Column 3, by computation column 1 and table 14, column 4.

TABLE 23

COMPARISON OF POTENTIAL CURRENT LOCAL TAXES ON NATIONAL FORESTS WITH CURRENT REVENUE RECEIPTS OF LOCAL GOVERNMENT,

AND WITH THE VALUE OF NATIONAL FORESTS AND THEIR CONTRIBUTIONS TO LOCAL GOVERNMENT 1/

Selected Counties in Pacific Coast States and Colorado

State and county	Potential local taxes on national forests	Ratio of potential local taxes on national forests to current local revenue receipts	Expected average contributions-in-kind to local government 1937-41	Excess of potential local taxes over contributions-in-kind to local government 2/	Ratio of excess (col. 4) to national forest value	Excess (col. 4) less expected average annual 25-percent fund payment, 1937-41 3/
	(1)	(2)	(3)	(4)	(5)	(6)
	Dollars	Percent	Dollars	Dollars	Percent	Dollars
California:						
Del Norte	1,400	0.6	14,100	-12,700	...	-13,200
El Dorado	39,900	8.9	16,500	23,400	0.4	18,200
Plumas	41,600	10.3	12,100	29,500	0.3	-6,800
San Diego	13,300	0.1	28,600	-15,300	...	-16,500
Trinity	29,900	14.3	18,600	11,300	0.5	8,100
Colorado:						
Larimer	16,500	0.9	12,000	4,500	0.5	-3,900
Mesa	13,900	0.9	15,000	-1,100	...	-6,500
Mineral	8,500	19.6	0	8,500	1.5	5,000
Oregon:						
Crook	40,000	32.3	1,700	38,600	1.9	36,800
Deschutes	68,200	16.1	15,300	52,900	1.7	42,800
Lane	204,200	12.6	45,100	159,100	1.5	143,600
Washington:						
Lewis	70,500	5.7	27,000	43,500	1.0	40,500

1/ Sources of data:
Columns 1 and 3, estimates.
Column 2, by computation column 1 and table 7, column 5.
Column 4, by computation columns 1 and 3.
Column 5, by computation column 4 and table 5, column 2.
Column 6, by computation column 4 and table 13, column 4.

2/ A negative sign in this column represents an excess of contributions-in-kind to local government over potential local taxes.

3/ A negative sign in this column indicates that the 25 percent fund payment is larger than the excess.

TABLE 24

COMPARISON OF POTENTIAL CURRENT LOCAL TAXES ON NATIONAL FORESTS WITH CURRENT REVENUE RECEIPTS OF LOCAL GOVERNMENT, AND WITH THE VALUE OF NATIONAL FORESTS AND THEIR CONTRIBUTIONS TO LOCAL GOVERNMENT [1]

Selected Counties in Southern States, Lake States, and New Hampshire

State and county	Potential local taxes on national forests	Ratio of potential local taxes on national forests to current local revenue receipts	Expected average contributions-in-kind to local government 1937-41	Excess of potential local taxes over contributions-in-kind of national forest to local government	Ratio of excess (col. 4) to national forest value	Excess (col. 4) less expected average annual 25-percent fund payment, 1937-41 [2]
	(1)	(2)	(3)	(4)	(5)	(6)
	Dollars	Percent	Dollars	Dollars	Percent	Dollars
Alabama:						
Lawrence	2,700	1.1	2,500	200	3/	-4,500
Winston	2,500	1.3	2,500	4/	3/	-3,800
Arkansas:						
Montgomery	8,600	11.8	5,000	3,600	0.3	-4,300
Florida:						
Baker	8,900	5.8	1,000	7,900	2.1	2,000
Columbia	4,600	1.7	1,200	3,400	0.8	-2,500
Louisiana:						
Grant	10,900	3.8	2,400	8,500	2.1	6,900
Natchitoches	10,200	1.7	2,000	8,200	1.7	6,700
Mississippi:						
Sharkey	7,400	3.1	0	7,400	0.9	-11,900
Stone	3,200	2.4	3,000	200	0.1	-100
North Carolina:						
Macon	6,000	5.3	700	5,300	0.6	2,800
South Carolina:						
Berkeley	18,100	6.2	2,000	16,100	1.0	9,100
Tennessee:						
Johnson	3,200	1.9	800	2,400	1.0	700
Texas:						
Houston	11,600	2.5	3,000	8,600	0.7	4,400
Trinity	6,900	3.3	3,500	3,400	1.0	400
New Hampshire:						
Grafton National Forest Towns	23,800	5.6	13,600	10,200	0.7	2,500
Minnesota:						
Cook	23,800	9.8	21,700	2,100	0.2	-1,400
Lake	18,700	4.3	23,000	-4,300	...	-8,800
Wisconsin:						
Forest	13,700	2.9	0	13,700	1.7	13,500

1/ Sources of data:
Columns 1 and 3, estimates.
Column 2, by computation column 1 and table 8, column 5.
Column 4, by computation columns 1 and 3.
Column 5, by computation column 4 and table 6, column 2.
Column 6, by computation column 4 and table 14, column 4.

2/ A negative sign in this column indicates that the 25-percent fund payment is larger than the excess.

3/ Negligible.

4/ Less than $100.

fund payments are greater than the additional federal obligation, as just defined; a figure greater than 25 percent indicates that the anticipated 25-percent fund payment is not sufficient to cover such federal obligation.

The data presented in tables 23 and 24 relate only to local government units. This table is intended to give a summary picture of the fiscal relationships, both actual and potential, between the national forests and local governments. The significance of the figures appearing in column 2 of these tables differs somewhat as between the public domain forests of the western territory and the acquired forests of the eastern region; with respect to the first, the figures indicate the extent to which local revenue receipts might be increased if the national-forest lands were added to the local tax base, whereas with respect to the second, the figures are indicative of the extent to which local revenue receipts have been reduced in consequence of national-forest purchases, assuming no subsequent changes in millage rates. It follows, therefore, that the figures shown in columns 2 and 6 of tables 23 and 24 should not be regarded as conclusive evidence of the extent to which local government finances are at present inter-related with either direct or indirect contributions from the national forests. The significance of column 5 of tables 23 and 24 is similar to that of column 2 of tables 21 and 22 which is discussed above.

Interpretation

Wide divergencies are found among counties with respect to virtually all the factors which bear on the relationships of the national forests to the governmental units in which they are situated. These divergencies are evident whether comparison is made between different forest regions or between different counties within each region. As to fiscal condition, the selected counties range from sound financial status to partial bankruptcy. Only a low correlation may be detected between the financial circumstances of the county and either the total amount of national-forest land within the county or the amount of payments from the 25-percent fund. With but very few exceptions, county budgets depend to only a slight extent upon direct monetary contributions from the national forests. Contributions-in-kind, in lieu of taxes, are generally much greater in amount than are the payments from the 25-percent fund. The financial condition of the typical national-forest county is dependent only to a minor degree upon the fiscal interrelationships between the county and the forest. This conclusion may be expressed with certainty in spite of the small sample, since, as already indicated, there was a conscious effort to include counties which were thought to be seriously affected by the presence of national forests.

Because of the wide variations in conditions as between the public-domain forests of the Pacific and Rocky Mountain regions and the acquired forests of the eastern territory, it is desirable to give separate consideration to the special circumstances and problems of each.

Public domain forests. The counties containing national forests which were formed wholly or largely by setting aside portions of the public domain have never enjoyed any revenue from the national forest lands so set aside except through the 25 percent fund. Thus adjustment of their finances to the non-taxable status of national forests has been relatively easy.

In general, these western counties are large enough and have sufficient taxable resources to be regarded as reasonably efficient units of local government. A low but usually well concentrated population within the national-forest boundaries, together with the fact that these lands have never been devoted to other than forestry purposes, serves to minimize the potentially disturbing effect of federal ownership. The financial condition of these counties is generally satisfactory. No record of current default on county or school district bonds was found in any of the public-domain counties selected for study. It is reported that very friendly relationships commonly existed between county officials and forest officers. Although county officials generally indicated satisfaction with the present amount of national-forest contributions to local government, they frequently expressed the wish that the returns from the 25-percent fund might be more stable and dependable from year to year.

Acquired forests. A much different impression is obtained from a survey of the eastern counties containing the national-forest lands secured largely through recent purchases. These counties, on the average, are small in area and have sharply restricted tax bases in comparison with counties of the western region. The lands which have now passed to federal ownership as national forests were formerly productive and tax paying in private ownership. During recent years, however, the economic productivity of these lands has progressively declined. If timbered lands, they have been cut over and the growing stock has been depleted; if farm lands, their fertility has been exhausted and frequently an advanced stage of farm abandonment is present, often accelerated by extensive soil erosion.

It is altogether logical, of course, that national-forest acquisitions should be made in the counties that have been and are undergoing economic deterioration. Increasing fiscal difficulties are a normal accompaniment of economic decline within a county or a region. Yet, in the public mind, there is, all too frequently, a willingness to regard these acquisitions as a cause of the fiscal difficulties, rather than to recognize that both are consequences of a single basic cause--local economic retrogression.

Many of the eastern national-forest counties are in unsound financial condition. Defaults on both principal and interest of county and school district bonds are not uncommon. Much of the land acquired for national forests has been chronically tax delinquent. Further economies in expenditures are possible only in small degree if a full quota of local governmental services is to be maintained; possible exceptions to this statement may exist in a few cases where county consolidations and reorganizations of the governmental framework are feasible.

In no eastern State is the tax loss to the State Treasury from national-forest acquisition sufficiently large to be of any fiscal significance; moreover, these State governments receive only scant benefits in the form of national-forest contributions-in-kind. In other words, the incidence of federal ownership, both positive and negative, is restricted in the main to local governmental units. Only a small portion of the total decline in the property tax base of the typical acquired-forest county is attributable to federal purchases; nevertheless, such purchases are contributing in some small degree to the fiscal difficulties and problems of such units.

It is in connection with the finances of the secondary local units, such as school and road districts, that the adverse effects of national-forest acquisition are found in most exaggerated degree. For example, federal purchases have removed over 75 percent of the property tax base of a number of towns or local school districts in counties in Alabama, Minnesota, Mississippi, New Hampshire, Texas and Wisconsin. In the town of Waterville, New Hampshire, 95 percent of the property tax base has been so removed. The problems presented thereby are not insuperable, however, amd are being met in part by larger State grants and by dismemberment of the affected districts and their assimilation into larger administrative units. But developments of the second type do not come about easily or quickly; also they must be made in the face of considerable local opposition and prejudice.

It may be repeated that national-forest acquisition and fiscal distress have been parallel developments in many counties in the eastern acquisition areas, but that both in the main have been the outgrowth of economic deterioration within the localities. National-forest purchases have usually been made only when the governing board of the county has consented. They have contributed in small degree to the financial troubles of the counties, but in larger degree to those of towns and school and road districts. An attitude of suspicion and resentment towards the Forest Service has been engendered in the minds of some local officials, despite the lack of a logical basis therefor. If some workable plan could be devised whereby the Federal Government would make some small contribution, even if only a temporary one, to these local governments, in addition to the direct and indirect contributions now being made, it would serve to assist these units in meeting the difficulties involved in the period of transition. However, assumption of any responsibility for the continued existence of uneconomic units of government should by all means be avoided.

5. The Contributions Base

Having considered the existing arrangement for Federal contributions to local government on account of the national forests, and having surveyed the resulting fiscal relationships in a number of specific localities, it is now in order to formulate such improvements as the situation appears to demand. The first step is to select the base for such contributions. This may or may not be the same base as for local taxation. The character of the different possible criteria will be discussed with special reference to national forests.

Income

Income is a common base for taxation. From the viewpoint of public finance the most serious defect of the income base is its tendency to fluctuate from year to year. Also, income is not used in the United States as a direct measure of property taxation, and thus there could be no ready comparison of a contribution rate based on income with local property tax rates.

If an income base should be selected for taxation or contributions, either net or gross income might be used. It would be unsatisfactory, however, to use net income in the case of the national forests. Many national forests, being in a developmental stage, yield no net income. Where there is a net income, its amount is subject to factors which would have to be somewhat arbitrarily determined. Accordingly, gross income or receipts from sales of stumpage, grazing fees, special-use permits, and the like, constitute the more practicable form of income base. It would necessarily be the same as, or very similar to that now in use.

There is no constant relationship between a tax on gross and one on net income. In a given case, a tax or contribution rate based on gross income may readily be reduced to an equivalent rate on net income, if the ratio of net to gross is known. The rate on gross income expressed as a percent, divided by the amount obtained by subtracting the percent of gross income absorbed by expenses from 100, is the equivalent rate on net income. For example, if the rate on gross income is 25 percent and if 40 percentof gross is absorbed by expenses, the equivalent rate on net income is $\frac{25}{100 - 40}$, or a little less than 42 percent. In forestry considerable variation may be expected in ratio of net to gross income depending on site quality, regeneration requirements, accessibility to markets, and other conditions independent of management skill. Records are lacking in this country, but in Germany, experience in normal cases has shown that the percent of gross receipts absorbed by expenses in the case of the highest yielding forest properties varies from 53 to 59, and in the case of those with poorest yield, from 82 to 89. 19/ Gross receipts and expenses in German forest management are based on sale of the product delivered on

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19/ Rothkegel, Dr. Walter. Handbuch der Schatzungslehre fur Grundbesitzungen, v. 2, p. 126, Berlin, 1932.

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the highway, so these percents are somewhat higher than they would be if based on sale of the product on the stump, as in the case of the national forests in the United States, but perhaps no more variable. In any case, it is clear that a fixed rate levied on gross receipts from stumpage would be an extremely variable rate on net income as among different forest properties.

If the gross income or receipts base is to be continued, its disadvantages should be eliminated or mitigated so far as possible. The chief problems to be solved are: (1) determination of the rate, (2) stabilization of the base, and (3) equitable distribution of the revenue. Methods of solving these problems will be proposed in Sections 6 and 7.

Value

Value 20/ is another common base for taxation. It is the universal

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20/ Cf. Fairchild, Fred Rogers and Associates. Forest taxation in the United States. U.S.D.A., Misc. Pub. 218, pp. 100-108.

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base for real estate taxation in the United States. Unfortunately, the term is often very loosely used, thus contributing to confusion of thought. Both from the economic and legal viewpoint, the value of anything is the amount of money that would be given in exchange for it. A single property has only one value at any given moment. Opinions may differ as to what that value is, and different methods may be used in its estimation.

Methods of estimating value on the basis of expected net income are necessarily adapted to the character of the income stream. In certain countries of Europe, where the larger forests are managed for sustained annual yield, value is approached by capitalization at an established interest rate of expected annual net income as if it were perpetual. In the appraisal of mining properties, and sometimes of forests which are presumed to be destructively operated, the present worth of the expected series of future incomes is determined by a discount method, which also involves choosing an interest rate. These methods are used usually because more certain means of appraisal based on selling prices actually realized in an open market are lacking for such properties. In the United States, where land use is far from stabilized, as it is in Europe, and where land transfers are relatively frequent, the most certain and direct approach to value is through knowledge of prices at which comparable properties have actually transferred combined with knowledge of the factors affecting value in the cases under consideration. Capitalization of expected income is a relatively uncertain approach to the value of forests in the United States owing to doubt as to the amount and realization time of expected net incomes which actually determine the market value of such forests.

It is often suggested that in the United States the tax or contribution base of forest property should be "sustained yield value" or "value based on productive capacity", meaning something different from value in

the economic and legal sense. To have that consistency and objectivity necessary to an equitable tax base, such a substitute for value should be susceptible of determination by definite methods from ascertainable facts. It is quite possible to set up the definite method. This might be expressed as a formula with interest rate, allowance for risk, and other factors clearly set forth and lawfully established. Such a formula is likely to give unexpected results under abnormal conditions. A more serious difficulty is that the basic facts cannot be definitely ascertained under American conditions. The normal or expected yield, the prices of products, and the costs of growing these products must be estimated without benefit of experience, and the opinions of those best qualified to estimate them would differ widely. The uncertainties surrounding these basic facts would make the results of determining the tax or contributions base in this manner uncertain. There would be wide differences according to the bias of the individual or board charged with the duty of making the determinations. Furthermore, if forest property were thus set apart from other property, it might become either the beneficiary of gross favoritism or the victim of gross discrimination through either legislative or administrative action.

Value, under some conditions, may be difficult to appraise. It may in some cases reflect uses of property which though permitted by law are not in the public interest. In spite of these disadvantages, it is a better tax or contributions base than one which is subject to arbitrary variation within a wide range. It is tied to objective facts; namely, prices realized in transactions. Fundamentally, it does represent the productive capacity of property reduced to present worth in money according to the judgment of those who buy and sell such property.

A method of contributing to local revenues in proportion to values of national forests would be much like payment of a property tax and would, therefore, fit the prevalent method of supporting local government. It would automatically provide a stable revenue and would present no special problem of distribution. The chief difficulties would be: (1) the appraisal of value, and (2) the finding of a fair rate. These problems will be considered in Sections 6 and 8.

Specific Acreage Fees

Prior to the adoption by the States of the value base for property taxation, it was customary to levy taxes on lands in the form of specific acreage fees, usually graduated in several different amounts according to a rough classification of land types. This crude method of determining tax liability has been revived from time to time for various special purposes. It is now applied in a number of states as a method of compensating local governments for loss of taxes on State forests, as already explained. Unless the range in average value per acre by taxing districts is small, this method is obviously inequitable, since the tax or contribution in such case bears no consistent relation to either value or income of the property to which it relates. In view of the wide range in acreage value among national-forest lands in different jurisdictions, the payment of specific acreage contributions would be highly unsatisfactory. Therefore, this method will receive no further consideration in this connection.

Income combined with value or specific acreage fee

It has also been proposed that a payment based on gross receipts be combined with an annual payment based on value of land apart from timber, or with an annual specific acreage fee. Such measures would be equivalent to the conventional yield tax plans. These plans were not recommended for application to privately owned forests for reasons explained in "Forest Taxation in the United States", pages 573-576. These reasons are for the most part applicable to similar methods of determining national-forest contributions. Furthermore, there is another objection peculiar to the contributions problem. Much of the national-forest area is so unproductive that any reasonable contribution to local government is likely to appear very small to the local taxpayers. If this contribution were split into two payments, one on timber and one on land, the amounts would seem even smaller, and it would be very difficult to resist local demands for higher payments however disproportionate to both income and value. Therefore, the proposal to combine income and value or income and a specific acreage fee as the contributions base will be dismissed from further consideration.

Cost of service

Another approach to the problems of compensating State and local governments for the tax-free status of national forests would be for the Federal Government to bear the expense of services ordinarily provided by counties and smaller units of government within the national-forest boundaries. This could be done either by the Federal Government providing these services itself, or by paying the costs. The first procedure might raise serious constitutional questions and would be open to attack as an infringement on State rights and an unprecedented extension of Federal authority. It is contrary to the basic assumption of a continued monetary contribution. The second procedure would involve grave difficulties in controlling the extent and cost of the services which would be at Federal charge.

If the difficulties of applying a cost of service base were satisfactorily overcome, the result would hardly be satisfactory from the viewpoint of equity, since the contributions of the Federal Government would be relatively large where the national-forest boundary happened to include areas with a substantial local population and consequent need for schools and other services, and relatively small where the national forest was well consolidated and the adjacent communities happened to be outside rather than inside the boundary. Such differences in contribution would be difficult to defend, and local pressure would be set up to alter national-forest boundaries in such manner as to increase the Federal contribution.

In view of all its difficulties and disadvantages, the cost of service base will be definitely rejected from further consideration.

Per capita cost of local government

It has been proposed that the broad problem of compensation to local governments for all classes of Federal property might be solved by paying to each State for the benefit of those governments a sum determined by multiplying the per capita cost of local government either by the number of employees or by the total number of occupants on such Federal property. 21/

21/ An informal suggestion offered to the President's Committee on compensation in lieu of taxation by Louis Shere, of the Treasury Department.

It is obvious that such a base for Federal contribution has no fundamental theoretical validity, and its author makes no such claim. As applied to the national forests it is clear that there would necessarily be rather wide variations in contribution depending on relative concentration of population within and without national-forest boundaries, which would have no consistent relation to the usual measures of tax-paying obligation. Its possible application to the national forests has been explored in some detail, with results which are contained in an office report available in the files of the Forest Taxation Inquiry. Whatever its merit as a rule-of-thumb method of compensating State and local governments for the tax-free status of all Federal real estate, it would not be a practicable base for a measure which would relate to national forests alone.

Choice of base

It appears that the choice of base for national-forest contributions is between gross receipts and property value. Alternative methods of contribution have been devised on these two bases. The proposed gross receipts plan involves a value limitation; the proposed property value plan, a limitation based on gross receipts. These plans will be described in sections 7 and 8.

6. Contribution Objectives

Before proposing plans for improving the method of national-forest contributions, the objectives and nature of the changes which this study has shown to be desirable should be considered. Such changes concern the amount of the contribution, its stabilization and distribution, its coordination with the local property tax system, and restrictions on its use. Also, consideration should be given to the responsibility of the State for aiding local units of government which may be placed at a special disadvantage through the limited revenues received from national forests.

Amount and Rate

At the outset it was indicated that the obligation of the Federal Government to make contributions to local government in place of taxes on national forests should be estimated with consideration for the loss of potential taxes, keeping in mind the special services not expected of private owners which are rendered by the Federal Government in connection with the national forests. Government-owned buildings and other improvements on the national forests are left out of the picture, because they are unimportant relative to lands and, if taxable as other property, their fair value for assessment would be highly debatable. The survey of actual conditions in selected counties compared potential taxes with value of services offsetting payment of taxes which could be evaluated in money. (Section 4). This survey shows the extreme difficulty of determining the facts and ascertaining the monetary contributions which, ignoring other considerations, would balance the account. It is quite clear that no uniform rule for determining monetary contributions could be formulated which would give even an approximate balance in the majority of counties concerned.

Every factor in the problem of balancing taxes and contributions varies widely in different localities, not to mention changes that occur in the same locality from time to time. The potential tax loss depends on assessment practice and tax rates. Some States impose all the taxes that property will bear and more; other States, a relatively light load. The contributions of the Federal Government through services, particularly in road building, are also extremely variable in respect to localities, though their total value is large. Furthermore, the incidence of these contributions as between local and State governments is likewise subject to wide variation. Under these conditions it is difficult to make any significant generalization as to the adequacy of existing contributions, especially from the viewpoint of the local units of government.

In attempting to appraise the adequacy of existing contributions, it is necessary to take into consideration the fact that national forests created from the public domain have never been subject to taxes. The whole structure of local government has been built up without support from such taxes. In general, these public domain forests provide a substantial revenue from the 25-percent fund. The conclusion seems warranted that the aggregate monetary contribution in respect to such forests is adequate under existing conditions.

Acquired national forests present a distinctly different problem. They are subtracted from the existing tax base. Even if the importance of the loss is often exaggerated in the mind of the local public, it is true that at least some difficulty may be expected in adjusting local public finance to this change. In States where the national forests are all recent acquisitions with cut-over land predominating, the receipts will be nominal for many years. Where it is proposed that acquisitions include bodies of merchantable timber to be withheld from the market for a time, there may be a substantial temporary loss in local tax revenues. It seems reasonable to conclude that the local governments affected by national-forest acquisitions, even if economically organized, in most cases need some assistance in making the necessary adjustments beyond that received through existing arrangements.

In view of the above conclusions, it follows that an improved plan of national-forest contributions should provide under current conditions and those expected in the near future somewhere near the same amount of monetary aid as at present in respect to public-domain national-forest lands, and an appreciably larger amount in respect to acquired lands.

Looking into the more distant future when the resources of the national forests will be fully utilized, it is difficult to set a precise measure upon the obligation of these forests to contribute to the financial support of local government. Certainly 25 percent of gross receipts would seem likely to become excessive when compared with taxes on private property. It is believed that in the aggregate 0.5 percent of property value would be a sufficient monetary contribution, taking into consideration the other services which have already been mentioned. This percent corresponds roughly to about one-third of the average rural property tax rate, if this rate were adjusted to represent a portion of actual rather than of assessed value. 22/

22/ For rural property tax rates adjusted to actual value, refer Fairchild, F. R., Forest Taxation in the United States, pp. 228-230, Misc. Pub. 218.

If applied now, it would, of course, yield a sum out of proportion to income because utilization of national-forest resources is still in an early stage of development.

Stabilization and Distribution

One of the chief financial requirements of local governments is that their revenues be stable and not subject to sharp fluctuations. Lack of stability is one of the most serious drawbacks connected with the present contributions. An equitable distribution among the States and counties is also essential, and here also the existing arrangement is subject to definite improvement. A degree of stabilization, together with equitable distribution, would be accomplished automatically if contributions were based on property value. If receipts are used, either as a base for determining the total contribution to each State, or for the purpose of a limitation on contributions related to value, they may be stabilized by using an average of a stated number of the latest years in place of the latest year alone. In the case of national-forest receipts, a process of trial indicates that a 5-year average would give a satisfactory degree of

stability. The details of this process are contained in an office report available in the files of the Forest Taxation Inquiry.

As indicated before, distribution would be no problem in connection with contributions based on value, the standard of local taxation to which local governments are accustomed. In connection with a receipts-sharing plan, distribution could be effected by returning revenues to the counties where they originate, which would probably be more satisfactory than the existing distribution of the receipts from each national forest on an acreage basis. However, the differences in timber-sale volume among the different national forests and on the same forests in different years are so great that neither stabilization nor distribution would be satisfactorily accomplished by this method. Therefore, it is considered desirable that in a receipts-sharing plan, each State's share of the timber-sale receipts should be distributed among the counties on a value basis. Thus counties containing national-forest timber held in reserve for future use would not be entirely without current revenues, and counties where sales were temporarily active would for the present share some of the revenues realized locally in consideration of later sharing in income realized elsewhere.

It would be possible to share grazing, special use, and other miscellaneous receipts as well as timber-sale receipts on a value basis. It is believed, however, that the counties would be better satisfied if these were returned to the counties of origin. There might be an advantage to the Federal Government in the direct local interest thus created in the charges for grazing and other privileges disposed of at less than market price. In any case, this miscellaneous business is not subject to such wide variation as that of timber sales, so that a fair degree of stabilization would be attained by the use of an average base. Furthermore, the fact that these miscellaneous services are not usually disposed of at full market price as in the case of timber would make a fair appraisal of the resources upon which they depend more difficult than appraisal of the timber resources alone.

Coordination with Local Taxation

Since the purpose of national-forest contributions is to aid local governments which are at a disadvantage through the tax-exempt status of Federal property, it might appear that the simplest way to measure the contribution would be to submit the national forests to local taxation, with provision for deducting the value of services not required of private owners which are rendered by the Federal Government in connection with the national-forest system. A complete presentation of the practical difficulties involved in such a procedure would run to considerable length. Perhaps the most serious of these would be assessment of the national forests on a fair basis in comparison with private lands in the same taxing districts, since assessment practice in the various States is most erratic. It would also be difficult to appraise the offsetting services. Furthermore, if these services, however useful, were not desired by the local communities as much as the tax revenues which they would replace, or if they would have been taken care of by the State rather than by the local unit of government, the result would still fail to give satisfaction. It would also be difficult

to devise methods of preventing the national-forest districts from becoming subject to administrations which would manipulate local taxes and local offices to the end that entire communities would be deriving their chief support from the Federal contributions. Another objection is that such a plan would give the greatest benefit in States where the greatest prominence is given to the property tax as a source of local public revenue, and to this extent might be considered inequitable from the broad standpoint of Federal and State fiscal relationships. Furthermore, if the Federal Government were given the protection which it would need in connection with submission of national forests to local taxation, the plan would fall so far short of putting the national forests on the same basis as private property and would involve so many administrative complications that it would fail to achieve either local satisfaction or simplicity. In view of these difficulties a solution along this line has not been proposed. However, some degree of coordination with the local tax system may be obtained either by using timber value as the basis for distributing a share of timber-sale receipts, or by making property value the contributions base.

Restrictions on Use

The existing restriction on use of national-forest contributions for schools and roads was adopted when it was universal practice to support these functions entirely or largely through local taxation. This practice has been for the most part abandoned, and in some States one or both of these functions now depend almost entirely on the general revenues of the State. It is believed that the use of these contributions should be for each State to determine in accordance with the needs of its own communities, subject only to the general restriction that the sum apportioned to each county be used in support of local government in that county.

Responsibility of the States

While this report deals primarily with Federal aid to national-forest localities, the problems of public finance which beset these localities are by no means of Federal and local interest alone. The local governments concerned are creatures of the State, not of the Federal Government. State law governs their organization and conduct, whether economical or wasteful. State action is required to bring about their reorganization to meet changing conditions, among which Federal land acquisition is usually only one of many. Their debts were authorized under State laws, and State credit is more or less involved in their settlement. State-owned tax-exempt lands are also a factor in some localities.

The Federal Government through the management of the national forests relieves the States of troublesome and expensive problems. It holds and protects mature timber to stabilize industries which are the economic foundation of many communities, and vital to the economy of many States. It buys cut-over lands which would otherwise become a burden on the States and undertakes the financially unprofitable task of restoring them to productivity. Furthermore, it has been shown that very substantial services are rendered to the States through road building activities connected with the national forests.

It seems reasonable to conclude, therefore, that where the maintenance or acquisition of national forests brings financial difficulties to local units of government, the task of assisting these units of government is a responsibility of the State as well as of the Federal Government. This conclusion is strengthened, so far as units affected by national-forest acquisitions are concerned, since such acquisitions are made only in States which have given formal consent by legislative action. As already noted, certain States have recognized this responsibility by granting special aid to local governments in which national forests are located. It would be unfair to the Federal taxpayer, who is carrying the whole national-forest enterprise for public service rather than for financial profit, if he were saddled with the entire cost of adjusting local government to this public enterprise.

Summary

In brief, it appears that an improved method of national-forest contribution should provide for continued payment in the near future of somewhere near the same aggregate amount as would be provided under existing arrangements in respect to public-domain lands, and larger sums in respect to acquired lands. There should be substantial improvement over the existing method through stabilization and more equitable distribution. Some check on excessive contributions with increased utilization should be provided. The present restriction on the use of such contributions for school and road purposes should be eliminated, giving the State legislatures authority to determine how contributions should be spent as long as they contribute in some way to local government in national-forest counties. Two plans will be presented, both designed to meet these requirements.

7. A Gross-Receipts Plan

This plan is the existing 25-percent method so modified as to overcome its more serious difficulties.

Principal features.

The principal features of this plan are: (1) Continuation of the basic idea of the existing method, namely, contribution to each State for the support of local government in counties containing national forests of 25 percent of the gross receipts from national forests in that State. (2) Stabilization of the contribution base to which the 25 percent is applied by substituting the average receipts for the latest 5 years for the receipts of the latest single year. (3) Distribution of each State's share of the timber sale receipts (including receipts from sale of wood, bark, resin, and other forest products) among the counties in proportion to timber value of national-forest lands in each, including in such value only the timber and timber producing capacity. (4) Distribution of each State's share of the grazing, special use, and other receipts so that each county will receive 25 percent of these miscellaneous receipts from the particular national-forest lands which it contains. (5) A temporary additional contribution on account of Federal acquisition of lands for national-forest purposes based on their cost, this contribution to continue for a period long enough to permit readjustment of local public finance to the substitution of the receipts-sharing plan for local taxation. (6) Limitation of each State's share of timber sale receipts to 0.5 percent of timber value.

Detailed Description

It is proposed that the monetary contributions of the Federal Government to the States on account of the national forests should continue to be 25 percent of gross receipts, except for a limitation which would become effective only with greatly increased utilization of timber resources. These contributions would be supplemented by special aid of a temporary character to counties where lands are being acquired for national forests. How these contributions would be determined can best be explained under the heads of stabilization and distribution.

The following method of stabilizing the 25-percent contribution is proposed: Divide the receipts from each national forest into two portions, (1) receipts from timber sales, including sales of wood, bark, resin, and all other forest products, and (2) all other receipts, chiefly from grazing and special use. Determine annually the total receipts from timber sales by States. Pay to each State after the close of each Federal fiscal year 25 percent of the average timber sale receipts from that State for the last 5 fiscal years, this payment to be known as the timber 25-percent fund. Where a national forest is located in more than one State, the timber sale receipts should be apportioned to the States of origin as accurately as conditions permit. The aggregate timber 25-percent fund in any State should be limited to 0.5 percent of the timber value of its national forest. In addition, pay to each State 25 percent of the average of all other receipts of the national forests for the last 5 fiscal years, this payment to be known as the miscellaneous 25-percent fund.

It is proposed that each State be required to distribute the 25-percent funds among the counties in which national-forest lands are located as follows: (1) Divide the timber 25-percent fund by the total timber value of the national forests, thus determining for the State a timber contribution rate per dollar of national-forest timber value. Pay to each county the product obtained by multiplying the timber value of the national forests in that county by the State contribution rate. (2) Distribute the miscellaneous 25-percent fund to the counties of origin, the amount due each county being 25 percent of the average miscellaneous receipts for the last 5 fiscal years from ~~the respective counties.~~ that county.

If desired, the five-year average base provided in this plan could be approached gradually, in this way avoiding the decrease in contributions which the outright adoption of this base would involve under existing conditions. Thus if 1936 had been the first year of the plan, in 1936 the gross receipts of that year would be used in place of the 5-year average; in 1937, the average gross receipts of 1936 and 1937 would be used; in 1938, the average of 1936, 1937, and 1938; in 1939, the average of the last four fiscal years; and in 1940 and thereafter the average of the last five fiscal years.

In order to aid in the adjustment of local governmental organization and public finance to the loss of property taxes on lands acquired for national forests and the substitution of the 25-percent fund contributions, it is proposed that a special contribution be made to the counties where such acquisitions are made. The contribution to each county would be 0.6 percent of the cost of acquired national-forest lands in that county, this cost to be so adjusted that the contribution in respect to any tract would be gradually eliminated over a period of 10 years.

The rate of 0.6 percent corresponds to about the minimum property tax rate on actual value in rural districts, except for a small number of extreme cases. Its application as proposed would provide a contribution which might be considered a fair compromise between local needs and the interests of the Federal taxpayer. Under certain circumstances, as explained later, this rate might be increased to 1.2 percent or more through State cooperation, the maximum Federal contribution being 0.9 percent.

The adjusted cost of acquired lands would be determined annually after the close of the fiscal year on the basis of the actual cost of such lands in the last preceding 10 years, the cost incurred in each fiscal year to be adjusted through reduction by 1/10 for each full year elapsed since the close of that fiscal year. Thus, the adjusted cost would equal the full cost incurred in the last preceding fiscal year, plus the cost incurred in the second preceding fiscal year adjusted by a reduction of 1/10, plus the cost incurred in the third preceding fiscal year adjusted by a reduction of 2/10, and so forth, the last item being the cost incurred in the tenth preceding year adjusted by a reduction of 9/10. The computation of this adjusted cost could be simplified in any year after the first years detailed computation by merely taking the aggregate adjusted cost as determined for the preceding year subtracting 1/10 of the aggregate unadjusted cost of acquisitions during the 10 fiscal years prior to the last fiscal year, and adding the cost of lands acquired during the last fiscal year.

The effect of this adjustment in the cost of acquired lands in connection with the uniform rate of 0.6 percent is equivalent to making the contribution on account of current and future purchases in the first year after acquisition 0.06 percent of full cost; in the second year, 0.54 percent of full cost; in the third year, 0.48 percent of full cost; and so forth, through the tenth year, when the contribution would be 0.6 percent of full cost. Thus in 10 years, the total contribution in respect to each acquisition would accumulate to 3.3 percent of the full cost, not considering interest. In determining the cost of acquisition for this purpose only actual considerations paid for national-forest lands would be included. That is, cost of surveys, title examination, and other acquisition expenses would be excluded, and likewise the cost of any tracts acquired for administrative sites outside national-forest boundaries.

On the other hand, there should be included in costs of acquisition the value of lands obtained through exchange for timber or by donation. The cost of the former would be the appraised value of timber given in exchange, and the cost of the donated lands would be their value at date of transfer. The value of lands acquired in exchange for other national-forest lands should not be included, since as a rule such acquisitions do not affect materially the total county tax base.

It should also be provided that the Federal Government would make an additional acquisition contribution on account of lands acquired for national forests in any county where the State makes a contribution for the purpose of relieving fiscal difficulties of local units of government in which these acquired lands are located. The amount of this additional contribution should equal the amount so contributed by the State up to, but not exceeding, 50 percent of the acquisition contribution to the county concerned, determined without benefit of this provision. Thus the total joint contribution, if the State should match the maximum Federal allowance, would be at a rate of 1.2 percent.

In order to reduce the danger of contributing to perpetuation of uneconomic governmental units, some limitation on the total Federal contribution similar to that in the existing law seems desirable. As counties now receive so much income from subventions and grants it would be better to relate this limitation to property taxes rather than to income from all sources. Therefore it is suggested that the total Federal contribution to any county in any year be limited to the amount of the property taxes levied in that county in that year, provided that in any county where property tax collections have fallen short of levies by more than 10 percent in 3 successive years, the maximum contribution allowable shall not exceed the average annual tax collections in the county for the last 10 years.

All payments under this plan, both 25-percent fund and acquisition contributions, should be made by the Federal Treasury direct to the States. However, these payments should be determined and ear-marked for distribution by the Secretary of Agriculture, all questions of fact necessary for these purposes to be determined by him. The only important question of fact not a matter of accounting would be the timber value of the national forests. Such timber value should be defined as the fair market value of national-forest lands for timber and timber growing, including in timber

all other forest products, such as wood, bark, and resin. All other elements of value should be specifically excluded, since timber sale receipts only are to be apportioned on this basis. All timber resources of areas reserved from cutting for the benefit of the State in which located or of local communities within that State should also be excluded. This determination of value should, of course, be by counties.

If any State or county should be aggrieved by any determinations of value made in accordance with the above provisions, it should have right of appeal to the National Forest Reservation Commission. It should be provided that the Commission may at its discretion refer such questions to the State tax commission or corresponding taxation authority of the State concerned for its advice and recommendations. The decision of the National Forest Reservation Commission should be final. As to all other questions of fact which may be involved in determining contributions the decision of the Secretary of Agriculture should be final.

No restriction should be placed upon the manner in which the Federal contributions on account of national forests should be spent, except that they be used for the benefit of counties in which the national forests are located, either through expenditure direct by the county or by other units of government within the county in such manner as the State legislature may direct. It should also be provided that in case any State should disorganize county and township government and establish wilderness districts in any areas containing national-forest lands, such wilderness districts would share in the 25-percent fund and receive acquisition contributions on the same basis as counties.

Cost to the Federal Government

The amount of total Federal contribution to local government in respect to public-domain national-forest land would remain the same under this plan as under the existing arrangement, except for the effect of using a 5-year average of gross receipts instead of the gross receipts for the last single year as the base on which the 25-percent contribution is calculated. The immediate annual reduction through the use of the 5-year average if the plan had been adopted in 1936 would have been 216,000. There would continue to be a reduction in comparison with the existing plan so long as the present trend in gross receipts should continue upward. In the long run there would be little difference in cost to the Federal treasury between the proposed plan and the existing arrangement, except for the proposed contribution in respect to acquired lands. If the plan had become effective in 1936, the special acquisition contribution in that year would have been $144.000. Thus the total cost of the plan, if it had become effective in 1936, would have been $905,000, as against $977,000 under the existing arrangement. If the five-year average base were approached gradually, so that in 1936 only the gross receipts for that year constituted the contributions base, the cost of the plan would have been $1,120,000.

The aggregate cost in respect to all acquisitions made in the first effective year of the plan and in all subsequent years, would, of course, be 3.3 percent of the total considerations.

8. A Property Value Plan

This plan contemplates that ultimately national-forest contributions should be based on property value, and become similar to property taxes levied at a low and uniform rate. Except for acquired national forests, the transition to the property value base would be long delayed and automatic. Immediate application of the ultimate standard to acquired national forests would give the counties containing them moderate aid which in many cases would not otherwise be forthcoming for many years. In most States, contributions on the forests carved out of the public domain would remain for many years practically the same in amount as under the existing method. Whenever gross receipts in a given State increase to a point where the 25-percent fund payment would seem excessive in comparison with taxes on private property the contributions provided in this plan would remain at a reasonable level.

Principal Features

The principal features of the proposed plan are: (1) Adoption of 0.5 percent of the value of national forests as the ultimate measure of Federal contribution to the local government. (2) Immediate application of this measure in respect to acquired lands. (3) Deferred application of this measure to public-domain lands by so adjusting their value that the amount paid to any State in respect to such forests in any year would approximate 25 percent of average gross receipts for the preceding 5 years. (4) Distribution of the contributions to the counties in accordance with the adjusted value of national forests in each.

Detailed Description

Under this plan, the monetary contribution of the Federal Government on account of national forests would ultimately be 0.5 percent of their value as appraised by the Secretary of Agriculture. It is proposed that the application of this contribution measure be approached gradually so far as the public-domain lands are concerned, through an adjustment designed to prevent the contributions from taking an unreasonable share of gross receipts. At the outset, therefore, this standard would be applied only to acquired national forests. The term "public domain" as used in connection with this plan means national-forest lands obtained by proclamation under the Act of March 3, 1891, and subsequent amendments; and by exchange for such lands and timber thereon under the Act of March 20, 1922. The term "acquired" is here used to designate those lands obtained by purchase, under the Acts of March 1, 1911, and March 3, 1931; by donation under the Act of June 7, 1924, and February 28, 1925; and by exchange for purchased lands under the Act of March 3, 1925.

The appraisal of national-forest lands would be made annually by counties, public domain separately from acquired lands. It should be provided that the lands be appraised at fair market value, including their natural resources, such as timber and forage, but not including minerals, waterpowers, or improvements. In this appraisal, no value would be allowed for lands reserved from general public use for some purpose of the State in

which located or of its local governments. For example, no value would be given to lands set aside for municipal watersheds. Also, the Secretary of Agriculture should have authority to reduce such appraised values in consideration of reductions below commercial prices for the use by the public of the national-forest lands and resources.

The appraised value of the public-domain lands would be subject to adjustment on the basis of comparison with gross income. This adjustment would apply in any State where the appraised value of <u>all</u> the national-forest lands exceeded the product obtained by multiplying by 50 the average gross annual receipts of <u>all</u> the national forests in that State for the last preceding 5 fiscal years, gross receipts determined as at present. It would consist in multiplying the appraised value of the public-domain national-forest lands in each county of the State by the ratio of the above-mentioned product to the total appraised value of all national-forest lands in the State. This adjusted value would be the contribution base in respect to the public-domain national-forest lands of the county. No corresponding adjustment would be made in the appraised value of acquired lands. The total adjusted value of public-domain lands, plus the appraised value of acquired lands in any county, would be the contribution base in that county.

It is apparent that the above adjustment is exactly equivalent to limiting the contribution base for public-domain forests to 50 times the average annual gross receipts from those forests in States where all national forests fall in that category. Such exact equivalence would not be likely to obtain in States containing both public domain and acquired forests because the two categories would generally have different ratios of gross receipts to value, but the discrepancy would not be serious.

If desired, the 5-year average in the above-described adjustment formula could be approached gradually, in this way avoiding the decrease in contributions which this plan would otherwise involve if adopted under existing conditions. Thus if 1936 had been the first year of the plan, in 1936 the gross receipts of that year would be used in place of the 5-year average; in 1937, the average gross receipts of 1936 and 1937 would be used; in 1938, the average of 1936, 1937, and 1938; in 1939, the average of the last four fiscal years; and in 1940 and thereafter, the average of the last five fiscal years. The Federal Government would pay annually to each State 0.5 percent of its contribution base as determined by the Secretary of Agriculture. This payment would be ear-marked for distribution among the counties at the rate of 0.5 percent of the contribution base in each.

As explained more fully in connection with the gross-receipts plan, it seems desirable to limit the total Federal contribution to any county in any year to the amount of the property taxes levied in that county in that year. Likewise, any State or county should be permitted to appeal questions of appraisal involved in the determination of its contribution to the National Forest Reservation Commission. The Commission's decision should be final on all questions of appraisal, and the Secretary of Agriculture's decision should be final on all other questions of fact.

Also as proposed in connection with the gross receipts plan, the use

of Federal contributions should not be restricted, except in the very general way indicated. They should also be available to wilderness districts in case these were created by the State to supersede county and township governments.

Cost to the Federal Government

The amount of the total Federal contribution to local government in respect to the public-domain national-forest lands would for a long time remain about the same under this plan as under the existing arrangement except for the effect of using a 5-year average instead of the last single year's gross receipts in fixing the limitation to value. As in the gross-receipts plan, an immediate annual reduction through use of the 5-year average would result, amounting to $216,000. There would continue to be such a reduction in comparison with the existing plan so long as the present trend in gross receipts should continue upward. In the long run, there could be little difference in cost attributable to the use of a 5-year average between the proposed plan and the existing arrangement. Whenever the gross receipts in any State times 50 exceeded the value of national forests in that State, there would be a saving to the Federal Government.

This plan would involve an additional cost over the existing arrangement in respect to acquired lands. This additional cost would continue to apply in any State as long as gross receipts times 50 failed to exceed the value of national forests. The total cost of acquisition for cash through 1936 was $40,411,385. If something over $4,000,000 would cover the appreciation of these lands since date of purchase, together with the value of lands obtained by donation and exchange, the current base for the additional contribution on account of acquired lands would be about $45,000,000 and the annual payment would be 0.5 percent of this amount, or about $225,000. This would not be a net increase in cost, as it would be partly offset by that part of the 25 percent fund ascribed to income from acquired lands.

It has been estimated that the total cost of the plan, if it had become effective in 1936, would have been about $917,000, as against $977,000 under the existing arrangement. If the 5-year average base were approached gradually, so that in 1936 only the gross receipts for that year were used in the adjustment formula, the cost of the plan would have been about $1,100,000.

9. Recommendations

The practical effects of the two plans which have been suggested are not so different as would appear on the surface. Both are in general accord with the conclusions of this study as to the amounts which the Federal Government should contribute to local government on account of the national forests. Both plans would reduce contributions below what they would be under the existing arrangement in localities where timber sales are especially active and increase them where there is valuable timber not yet utilized. Under current conditions, the gross-receipts plan is more favorable than the property-value plan to the counties containing national forests which are chiefly valuable for grazing, since the grazing resource is already fully utilized in contrast to the timber, much of which is still undeveloped. In the long run, however, the grazing counties might be compensated for present sharing of grazing receipts with timber counties in the same State under the property-value plan by later sharing in timber receipts when the income from timber becomes more important.

The differences in cost to the Federal Government between the two plans, based on the rates suggested in the report, are not important in amount. The property-value plan is likely to become somewhat more costly than the gross-receipts plan because in each State the more liberal treatment of acquired lands is maintained under the property-value plan until the gross receipts equal or exceed 1/50 of the value.

In case it is felt that the assistance to the counties containing acquired lands provided by the gross-receipts plan is not sufficient, this objection may be readily overcome by lengthening the number of years in the proposed formula for obtaining the adjusted cost to which the rate of 6/10 percent is applied. For example, 20 years might be substituted for 10 in that formula, in which case the aggregate contribution in respect to each tract acquired after the plan became effective at the 0.6 percent rate would be 6.3 percent of the consideration paid, spread over 20 years, instead of 3.3 percent spread over 10 years. It would be better to lengthen the period during which the payments would be made rather than the rate upon which they would be based, since holding the amount available in any year to a moderate sum would tend to promote economy in the use of the money.

It would probably be preferable, in connection with either of the two plans, to apply the 5-year average gradually by the methods which have been suggested. Otherwise, the counties might feel that they were being obliged to suffer from the ill effects of the depression years on contributions twice, first directly through the existing arrangement, and second indirectly through averaging under the new method.

There may be reason to believe that for the purpose of either of the two plans, the value of timber given in exchange for land should be included in gross receipts. Failure to include such value in receipts under the existing arrangement has given rise to some complaint. The hardship to any national-forest county through this feature of the present arrangement would be much reduced under the proposed plans through the provisions for stabilization and more equitable distribution. On the other hand, if any particular

validity in the 25-percent return were admitted, there would seem to be ground for arguing that it should apply to actual gross receipts before reduction through the exercise of administrative authority to use them in consummating exchanges. The inclusion of the value of exchange timber in gross receipts would raise the Federal contribution on an average of a little over $50,000 per year, if exchanges continued to involve about the same value of timber as in the past 10 years. The matter is not of great importance, and it would probably be simpler to let the gross receipts be determined as at present, with the expectation that the portion of receipts used for exchanges will continue to be held at a moderate figure by administrative action.

There may be some question as to the reason for making the special acquisition contribution in the gross-receipts plan extend to lands received in exchange for public-domain land and timber, while limiting the contribution on account of acquired lands under the property-value plan to lands acquired for cash or by donation, or in exchange for land and timber which had previously been acquired for cash. The contribution under the gross-receipts plan would be a temporary aid to cover a transition period and should apply wherever such a transition occurs. On the other hand, the corresponding contribution under the property-value plan would be a permanent feature and should be restricted so far as practicable to counties where the need is of a permanent nature. It would seem that the need for Federal aid on account of lands exchanged for public-domain lands and timber is relatively temporary, in view of the substantial contributions which would be provided in counties containing well timbered national forests of public-domain origin such as would generally be involved in exchanges. However, there is room for difference of opinion on this point, and either plan could be changed in this respect without disturbing its more essential features.

Of the two plans for determining national-forest contributions which have been suggested, it is believed that either would be a distinct improvement over the existing arrangement. The gross-receipts plan appeals to those who wish to minimize the change from the existing method and who are impressed by the advantages of returning a share of grazing and other miscellaneous receipts to the counties where those receipts originate. The property-value plan appeals to those who desire as close coordination with the local property-tax system as may be consistent with protection to the Federal treasury. It is believed that the property-value plan is on the whole somewhat simpler and will be likely to give more satisfaction in the long run. Accordingly, it is recommended that the property-value plan be adopted as the Forest Service proposal for dealing with the contributions problem.

A P P E N D I X

I. EXAMPLES

The following examples illustrate the methods developed in the contributions report. Case 1 represents a State containing only acquired national-forests, Case 2 a State containing only public-domain forests, and Case 3 a State containing national forests in both these categories. In each example, the problem is to find the contribution payable after the close of the fiscal year 1937.

Case 1 - Acquired

Assumptions:

A State containing only acquired lands with no receipts.

A county containing acquired lands costing $200,000, of which $100,000 was acquired in 1937 and $100,000 in 1936.

Gross-Receipts Plan

$100,000 in 1937	$100,000
$100,000 (9/10) in 1936	90,000
Contribution base.	190,000

Contribution: $190,000 x .006 = $1,140

Property-Value Plan

Contribution: $200,000 x .005 = $1,000

Note

This example shows more liberal treatment of the county under the gross-receipts plan than under the property-value plan, because of the assumption that all of the purchases were made in the last two years. In general, the treatment under the gross-receipts plan by the formula suggested would be the less liberal.

Case 2 - Public Domain

Assumptions:

		State	County
Timber value	June 30, 1937	$100,000,000	$10,000,000
Miscellaneous value		2,000,000	100,000
Total value		$102,000,000	$10,100,000
Timber receipts, F.Y. 1937		$200,000	$80,000
Other receipts, F.Y. 1937		150,000	8,000
Total receipts		$350,000	$88,000

Gross Receipts Plan

Timber 25-percent fund for state = \$200,000 x .25 = \$50,000

Timber contribution rate = $\frac{50,000}{100,000,000} = \frac{1}{2,000}$

Timber contribution (county) = \$10,000,000 x $\frac{1}{2,000}$ = \$5,000

Miscellaneous contribution (county) = \$8,000 x .25 = \$2,000

Total contribution (county) \$7,000

Property-Value Plan

Adjustment ratio = $\frac{350,000 \times 50}{102,000,000}$ = .17

Adjusted value (county) = \$10,100,000 x .17 = \$1,717,000

Contribution (county) = \$1,717,000 x .005 = \$8,585

Note

This case pictures a county where the national forests are being cut at a much more rapid rate than the average for the national forests of the State. In such counties the contributions under the proposed plans would be less than those allowed under the present law. Under the extreme assumptions of this case, the reduction would be from \$22,000 under the 25 percent plan to \$7,000 or \$8,585. The counties where the national forests are being cut at a lower than average rate would get a corresponding benefit.

The reason this case shows a more liberal contribution under the property-value plan than the gross-receipts plan is that under the property-value plan the county shares, on the basis of a substantial national-forest value, in miscellaneous receipts from all the State, which are assumed in this case to be disproportionately large in comparison with miscellaneous receipts realized in the county.

Case 3 - Acquired and Public Domain

Assumptions:

Same as Case 2, except that of the \$10,000,000 timber value in the county, \$9,000,000 represents public-domain forest and \$1,000,000 represents property acquired at cost of \$100,000 per year for past 10 years, present value of which equals cost.

Gross-Receipts Plan

Timber and miscellaneous contribution as in Case 2 = \$7,000

Acquired contribution base = \$100,000 + \$90,000 + \$80,000 + ... + \$10,000 = \$550,000

Acquisition contribution = \$550,000 x .006 = 3,300

Contribution (county) \$10,300

(Above will be reduced by \$600 each year in event of no new acquisitions, other factors remaining the same.)

Property-Value Plan

Adjustment ratio (as in case 2) = $\frac{350,000 \times 50}{102,000,000}$ = .17

Adjusted value, public-domain forests =	
\$9,100,000 x .17 =	\$1,547,000
Value acquired forests =	1,000,000
Total	\$2,547,000

Contribution (county) = \$2,547,000 x .005 = \$12,735

Note:

The property-value plan gives the more liberal contribution in this case both for the reason which applies in case 2 and for the additional reason that the contribution on account of acquired lands is greater under the property-value plan. In contrast to case 1, it is here assumed that the cost of acquired lands is spread over the preceding ten years instead of being concentrated in the last two.

II. THE ADJUSTMENT RATIO

(Property-value Plan)

One of the principal features of the property-value plan, as explained on page 63, is the adjustment of the value of public-domain national forests so that the amount paid to any State in respect to such forests in any year would be limited to approximately 25 percent of average gross receipts for the preceding 5 years. As further stated on page 64, this adjustment would apply in any State where the appraised value of all the national-forest lands exceeded the product obtained by multiplying by 50 the average gross annual receipts of all the national forests in that State for the last preceding 5 fiscal years. It would consist in multiplying the appraised value of the public-domain national-forest lands in each county of the State by the ratio of the above-mentioned product to the total appraised value of all national-forest lands in the State. The purpose of this supplementary discussion is to further explain this device for limiting the contributions in respect to public-domain lands, which is proposed because a direct limitation to 25 percent of gross receipts would entail accounting difficulties. It will be shown that the resulting aggregate contribution in any State in respect to public-domain national forests would generally approximate 25 percent of their gross receipts, and the effect of such departures from the 25 percent standard as might be encountered.

In States where national-forest lands are all of public-domain origin either through proclamation or exchange, the use of the adjustment ratio for reducing the contributions base as proposed under the property-value plan has the effect of limiting the aggregate contribution to each State to exactly 25 percent of gross receipts. This fact may be demonstrated mathematically.

Consider first a State where all of the forests are of public-domain origin. Let the average annual gross receipts for the past 5 years from national-forest lands be designated Y, and their value at the end of the last fiscal year V. The adjustment ratio may then be written

$$\frac{50\ Y}{V}$$

The contribution to the State under the property-value plan is 0.5 percent of the value of national-forest lands times the adjustment ratio where this ratio is less than 1, or

$$\text{Contribution} = .005\ V\ \frac{50\ Y}{V}$$

Simplifying by canceling the V's and multiplying, we have:

$$\text{Contribution} = .25\ Y$$

Thus in a State where all the national forests are from the public domain the contribution under the property-value plan where the limitation applies would be exactly 25 percent of the average annual gross receipts.

In order to show what would happen in States where the national-forest lands are both public domain and acquired in origin, the gross receipts and values relating to these two categories will be distinguished

by the subscripts d and a. Thus Y_d and V_d will be the respective receipts and value for public-domain national-forest lands, and Y_a and V_a the respective receipts and value for acquired lands. The formula for the contribution in respect to public-domain lands then becomes:

$$\text{Contribution} = .005\ V_d \ \frac{50\ (Y_d -- Y_a)}{V_d -- V_a}$$

However, if the receipts-value ratio were exactly the same for acquired and public-domain lands, i.e. if

$$\frac{Y_a}{V_a} = \frac{Y_d}{V_d}$$

then the adjustment ratio would have exactly the same value as if written $\frac{50\ Y_d}{V_d}$ and the maximum contribution as in the previous instance would be exactly 25 percent of gross receipts. (If the adjustment ratio were greater than 1; that is, if 50 times gross receipts were greater than value, the adjustment would not apply and the contribution would be 0.5 percent of value.)

In application, precise equality in the receipts-value ratios would not occur. In some cases there would be close approximation to equality, in which case it is evident that the contribution in respect to public-domain forests would be very close to 25 percent of their gross receipts. However, the effect of marked inequalities in these ratios should be considered.

In most of the western states the value of public-domain national-forest lands would be large and that of acquired national forests, even when the present acquisition program is completed, would be relatively small. In such States the variation from 25 percent of gross receipts through the proposed adjustment would be negligible as in such cases the values of Y_d and V_d would predominate in the adjustment ratio and a wide difference between $\frac{Y_d}{V_d}$ and $\frac{Y_a}{V_a}$ would have little effect. Assume, for example, that V_d = \$100,000,000, V_a = \$10,000,000, Y_d = \$300,000, and Y_a = \$1,000. Under these assumptions,

$$\frac{Y_d}{V_d} = \frac{3}{1,000} \text{ and } \frac{Y_a}{V_a} = \frac{1}{10,000}$$

an extreme difference in receipts-value ratios much greater than would be likely to occur in any State. The contribution in respect to public-domain lands would then be:

$$.005\ \frac{50\ (300,000 -- 1,000)}{100,000,000 -- 10,000,000}\ \$100,000,000 = \$68,409 \text{ or}$$

22.8 of gross receipts from public-domain lands.
Thus, even under these exaggerated assumptions, the departure from the standard 25 percent ratio would be small.

In Minnesota, Arkansas, Florida, and possibly in some other States the national-forest value in acquired lands is substantial in comparison with the value in public-domain lands. Here the contribution in respect to public-domain lands might vary considerably from 25 percent owing to

the possibility of a marked difference in receipts-value ratio between public-domain and acquired lands. If the receipts-value ratio for acquired lands is greater than for public-domain lands (i.e. if $\frac{Y_a}{V_a}$ is greater than $\frac{Y_d}{V_d}$) the contribution in respect to public-domain lands would be greater than 25 percent. If the reverse relationship should exist this contribution would be less than 25 percent. The latter would be the usual case on account of the preponderance of cut-over lands among those purchased. However, in these States, since the adjustment is applied only to public-domain lands, the contribution for the State as a whole (and for any county containing national forests acquired in some substantial part by purchase) would be in excess of that which would be allowed under the existing 25 percent plan. This would be true even though the contribution in respect to public-domain lands should be considerably below 25 percent of gross receipts, as might occur in a few extreme cases. Therefore, the possibility of complaint through the effect of the adjustment ratio in reducing contributions in respect to public-domain lands would be minimized.

In States where all national-forest lands are acquired, no adjustment would be applied.